The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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WEIGHING MARKET PROSPECT AFTER ELECTION

WHAT PROSPECT FOR BUSINESS LET-DOWN

—BEFORE ARMS SPENDING TAKES HOLD

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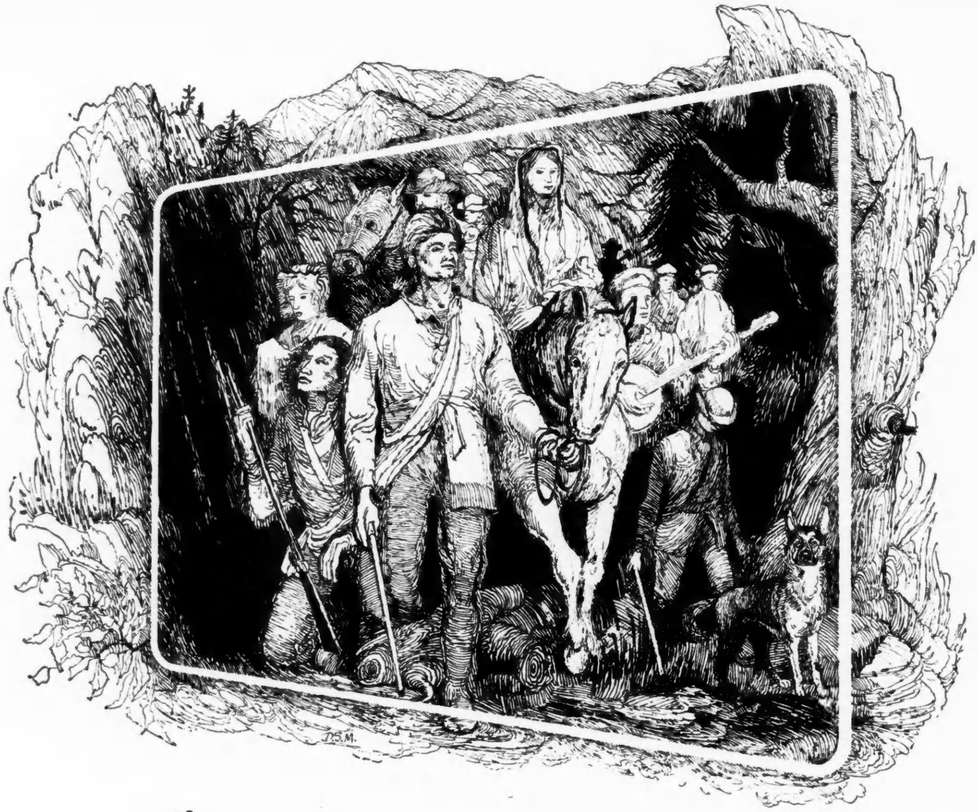
—FOR HIGH-YIELD INCOME AND APPRECIATION

By THE MAG. OF WALL STREET STAFF



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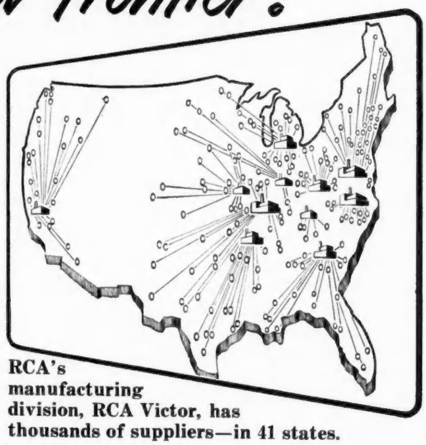

RCA's manufacturing division, RCA Victor, has thousands of suppliers—in 41 states.

RCA Victor's eleven plants alone buy from more than 4700 suppliers (mostly small business concerns) in 41 states. Production for the entire television industry has jumped from 7,000 sets pre-1946, to several millions yearly—affecting the economy of every state in the Union.

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THE MAGAZINE OF WALL STREET

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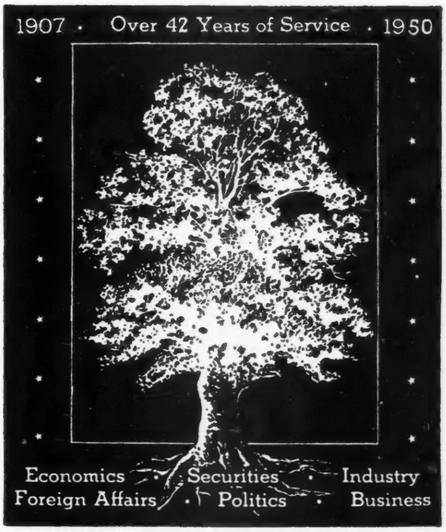


The Trend of Events

REGULATION "X" . . . By issuing Regulation X, the measure designed to curb the building boom through restraint of mortgage credit for residential housing, the Government has embarked upon a novel and hazardous, but none the less necessary experiment. It is hazardous because its impact may be more deflationary that is anticipated. It is necessary because it was evident from the outset that the new defense program could not be successfully superimposed upon an economy already operating at the peak rate without cutting back civilian activity.

Since building, together with the durable consumer goods industries, were the most conspicuous elements in the boom, they thereby qualified as the most logical areas for restraining action. In either instance, the principal activating force was a superabundance of credit on easy terms which could in theory at least be readily de-activated by a vigorous policy of credit restrictions.

Instalment credit curbs as embodied in Regulation W have been mild so far and not too effective, hence they were tightened again only a few days ago. The same cannot be said of Regulation X which is anything but mild in its potential impact which is expected to cut down residential building by one-third. What such a cutback as a whole would mean as an anti-inflation measure may be seen from the fact that the building industry currently accounts for the use of 14% of the nation's steel production, 10% of its aluminum, 5% of its copper, and 68% of its lumber.

The stated objective, in other terms, is to cut the rate of home building from the 1.5 million annual level attained in the first eight months of the year to an annual rate of some 800,000 dwelling units. It's anyone's guess of course whether this will be achieved. Some spokesmen for the building industry predict the cut will in fact be far greater. Others feel that with the large liquid resources in the hands of individuals, the actual reduction will be far less.

The former could be over-deflationary; in the latter case, the move would fall short of its mark. Excessive reduction would be just as undesirable as not enough reduction. It would leave us with a surplus of many materials and manpower. But if the reverse should prove true, additional curtailment would be needed to put a more effective check on inflation.

While Regulation X was issued to cope with a defense emergency, it will also end the excessive stimulation of home building caused by too liberal mortgage insurance and guarantee terms by the Federal Government. The excessive stimulation to-date was neither healthy nor desirable; clearly it was leading to overbuilding and eventual unsettlement in the real estate field. This situation now should be largely corrected. Once it is, we won't need Regulation X or any similar curbs to avoid wide fluctuations in the building industry.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELORS : : 1907—*"Over Forty-two Years of Service"*—1950

THE SHRINKING DOLLAR GAP . . . Foreign trade statistics for the month of August highlight the incisive shifts which have occurred in world trade and particularly in our own trade position. Our imports in August soared to a new high of $819 million, nearly 50% above the 1949 monthly average, while our exports of $760 million were about 25% below the $1,003 million monthly average for last year and 7% below the monthly average for the first six months of 1950.

The result: An import surplus of $59 million for the month, the first since June 1937! August imports were spurred by the requirements of the defense program and continuing boom conditions in this country which increased the demand for foreign goods. On the export side, some $51 million represented shipments of military goods to western European countries with the U. S. footing the bill. Other exports doubtless contracted because of overriding domestic needs for our own defense program.

The result of all this is that Department of Commerce officials now feel that the days of big export surpluses are over, that our foreign trade during the next few years will be about in balance, with perhaps only a small export surplus. Everything points in this direction and it would not surprise if the dollar gap would disappear entirely. If so, it not only reflects the effectiveness of Marshall Plan aid and other programs designed to cover the "gap" but also the influences set in motion by the Korean war and our defense effort, as well as by continued boom conditions in this country.

Expanding American production and trade in the first half of 1950 led to higher prices and increased demands for imports, while progress with industrial rehabilitation in Europe, better crops, and more competitive prices displaced American goods to some extent in foreign markets. American manufacturers in many cases tended to shift production from foreign to domestic markets, and many foreign traders switched the focus of their attention from export to import opportunities.

The Korean war has speeded and intensified these shifts. The burst of consumer buying put pressure on our industries to fill the soaring demands of the home market, and the defense program required larger imports of materials for which we must rely, wholly or in part, on foreign sources. Thus while imports mount, heavy civilian and military demand is cutting into export capacity of many lines, and a broadening of export restrictions is intensifying this trend.

This is a desirable trend, for at long last and after costly efforts on our part, it has enabled many foreign nations to balance their trade with us and some are actually earning more dollars than they are spending here with the result that gold and dollar reserves abroad have risen substantially in recent months. Where this is the case, it helps build confidence in local currencies, improves the basis for trade credit, and makes possible the easing or abandonment of restrictions on trade and on currency convertibility.

There is every reason to expect that the world will continue to gain gold and dollars until the Marshall Plan has run its course. By that time, it is probable that the deficit in the balance of payments with the United States will be considerably smaller, and that liquid reserves that can be used to cover deficiencies in the balance of payments will be even larger.

This should pave the way for a sharp contraction of direct U. S. Government aid to other nations. Particularly if the investment of private American capital abroad expands, as is probable with the great increase in the monetary strength of other countries, the need for U. S. Government aid should contract sharply. And dwindling foreign aid outlays will at least in some measure offset our expanding armament expenditures, thus will help lessen inflationary pressures in this country.

INTEREST RATES . . . In the controversy over interest rates, it would seem that the Federal Reserve Board wants to do the right thing by raising short term interest rates somewhat further, both because it would play some part in combating inflation and because it is desirable to narrow the abnormally wide spread between short-term and long-term rates. The latter is no less an important argument than the former. Admittedly, slightly higher short-term rates would not remove the threat of inflation since they would exert little direct restraint on business and the commodity markets. But they would work at least to some extent in this direction, and no reasonable means to counter inflation should be ignored.

Narrowing the spread between short-term and long-term interest rates would seem equally important, however, not only because the former have been too low for a long time and a more normal relationship is desirable, but because it will remove or minimize the constant tendency of banks to sell their short-term issues and buy long-term issues. It would not only facilitate maintenance of "orderly conditions" in the government bond market. Since the Federal Reserve System would have to buy the short term issues to support them, such switching also tends to expand bank reserves when there is no need for credit expansion, when indeed an opposite policy of credit curtailment is in order. Minimizing such switches by permitting somewhat higher short-term interest rate would be a definite aid to credit and fiscal policy.

COLOR VIDEO . . . The Federal Communications Commission faced up to a grave responsibility in handing down its decision approving the Columbia Broadcasting System's method of showing color television. It must have been a difficult decision, since it vitally affects the interests of many millions of TV set owners as well as those of a growing and highly competitive industry which has long been at odds over the color problem. A large section of the industry, particularly the set manufacturers, wanted the F.C.C. to stay its decision until a perfect color system could be accepted by all. The F.C.C., apparently mindful of the rapidly increasing rate of set ownership, decided to act before the problem got worse.

The dilemma thereby created illustrates the complexity of the industry as well as the importance of protecting the public interest in a highly technical dispute. But despite the confusion created, all sides

(Please turn to page 98)

As I See It!

BY ROBERT GUISE

THREE HOURS ON WAKE ISLAND

It has been said that President Truman's purpose in meeting with General MacArthur was to attempt to compose the long-standing differences betwen his Administration's Far Eastern policy and the views of the General, its leading critic.

If that is so, and such an effort appears implicit in the circumstances of the trip and the personalities of the two principals, the outlook for a complete meeting of the minds was probably not too promising at the outset. The very brevity of the conference, in view of the sweeping agenda outlined by the President, raises questions about the actual accomplishments.

In one hour of private conversation and two hours of staff conferences, it might have been possible to clear up any doubtful points about Korea. But if there was time, in those three hours, to deal at any length with the General's views on the future of Japan, or discuss "the ways in which this country can effectively promote its policies of assisting the United Nations to promote and maintain international peace and security throughout the Pacific area", the meeting at Wake Island must have set a record for quick dealing with complicated and highly controversial subjects.

It is widely recognized that the meeting would hardly have been necessary, had there not been substantial differences of opinion that required solving. With the meeting over, there still remains much speculation as to its underlying purpose as well as the real results that may come from it. Its full significance may only be revealed as time goes on.

We can assume that the President was not at a loss for arguments to support a policy that was brought on and furthered by the American withdrawal from China—a policy which General MacArthur has called into question. Nor is the General likely to have gone along readily with proposals regarding the handling of Formosa and Red China, if harmonization of policy here was rendered difficult by the ideas and tendencies of appeasement of communism in the Far East displayed among some of our allies and within certain Administration circles.

It is to be hoped that at least the foundation for an understanding was laid that will remove doubts that the President and General MacArthur can work, and are working together on major policies. That alone would be highly desirable. But if so, it is also to be hoped that cooperation will not be on basis of appeasement. After all, there is no longer any need for us, if there ever was, to appease communism. The Kremlin has lost face in Korea and all over Asia, and doubtless Stalin's underlings which directed the Korean adventure, will be asked some embarrassing questions. And as the Kremlin lost face, America recovered some of its prestige.

"ALL RIGHT—WHOSE IDEA WAS IT?"

Herblock in The Washington Post

Thus it is no longer necessary for us to appease Red China by paving the way for her entry into the United Nations, to let her in now with the idea of recognizing her later. That still is, in the opinion of various observers, what some of our policy makers are aiming at, just as they have been working for a U.N. settlement for Formosa rather than a strictly American policy towards that island from the standpoint of American defense.

Korea has shown up the weakness of Red China as well as Russia. If there had been no weakness, their intervention would have come long ago. It is obvious now that the (*Please turn to page* 100)

Weighing Market Prospects After Election

The recent additional credit curbs were severe enough to give the market some pause, threatening to check the civilian business boom before volume defense orders develop. Other anti-inflation moves are likely after the elections. In view of the advanced level of stock prices and of tax-control uncertainties, defer new buying and maintain sizable reserves.

By A. T. MILLER

Average stock prices advanced a little further within the last fortnight, but gave up this gain in recent trading sessions. So the present market level closely approximates the position obtaining when our last previous analysis was written. Although in no way decisive, recent softness has been most marked in industrials which had a relatively sharp upward movement in the first week of October, at least temporarily climaxing the upswing from the mid-July reaction low; and in utilities, which remain particularly under the shadow of the coming further boosts in corporate taxes because the margin by which present dividends are covered ranges only from narrow to moderate in a majority of cases.

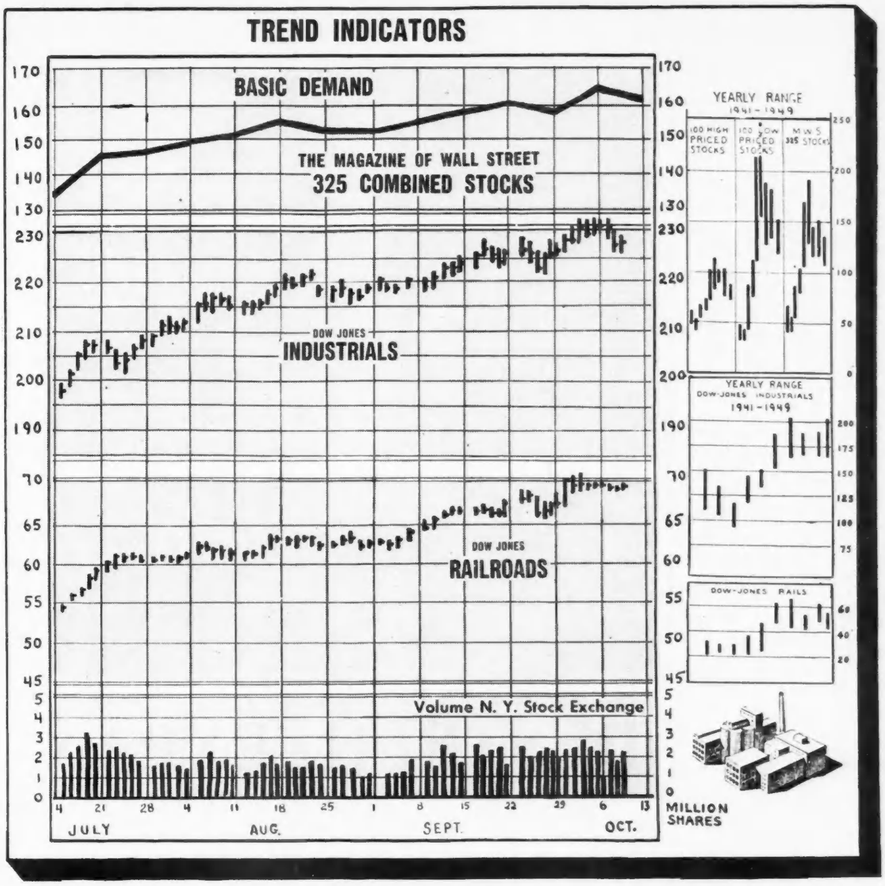
So far the daily share turnover has remained largest in periods of strength, tending to contract somewhat during corrective recessions; and the latter have not exceeded minor technical proportions up to this writing. In short, there is no positive evidence yet that the early-October high represented an intermediate top; and nothing in the chart pattern to argue against the possibility of a prompt resumption of the general upward trend. On the surface, this latest sell-off looks no different from several previous ones in the course of the post-Korean-war rise, after each of which fresh demand asserted itself without significant delay.

But There May Be A Difference

It has to be emphasized, however, that technical evidence of an intermediate top is never "positive" until after a reaction has continued for some time and has gone a substantial distance. For that reason it is foolish for investors to sell sound stocks with the idea of buying them back to advantage on a reaction. On the other hand, if common sense suggests, with at least some support from the current technical indications, that the market may well be at a vulnerable level, it is wise to do the following: (1) Defer any buying; (2) bring reserves in cash or equivalent up to the level we have heretofore recommended, which is 25%; and (3) reexamine portfolios with an eye to weeding out some of the least desirable speculative holdings or to clinching good profits in some cyclical-type stocks which look to be relatively high-priced on reasonably appraised prospects in a high-tax, semi-war economy. We believe that the market's near-term and medium-term prospects—covering both the next several weeks and the next several months—are open to sufficient question to justify at least this degree of caution.

The Dow-Jones industrial average has had a rise of more than 34 points from its July low in less than three months. The advance in more accurately representative measures of average industrial stock prices has materially exceeded that, especially when figured on a percentage basis. Although

moderate in relation to existing earnings and dividends, average industrial stock prices are the highest seen in a great many years —and existing earnings are subject to rather large shrinkage when higher taxes and Government controls take their toll. Moreover, it is impossible to see how dividends next year could exceed this year's total, but it is not impossible that they could be at least moderately lower.



The market, of course, has been looking at the favorable side of the picture —emphasizing the guarantee of high annual levels of business activity inherent in the projected armament program; emphasizing inflation, without much heed to the time factor; and emphasizing prevailing dividend yields which are still fairly high, compared with those in the upper reaches of most earlier advances. The latter can be a decidedly inexact, and therefore fallible criterion. The market's large 1948 rise topped out with yields considerably higher than they were at the 1946 top. This rise might well top out with yields considerably higher than at the 1948 top. We have been in a period of generally high dividend yields for quite a few years now; and this has not precluded market declines of some importance at various times. Yields are a rough measure of basic confidence—and of risk. Need it be said that stock yields ought to be rather generous today to compensate for the uncertainties of taxes, of Government controls and of hot or semi-cold war?

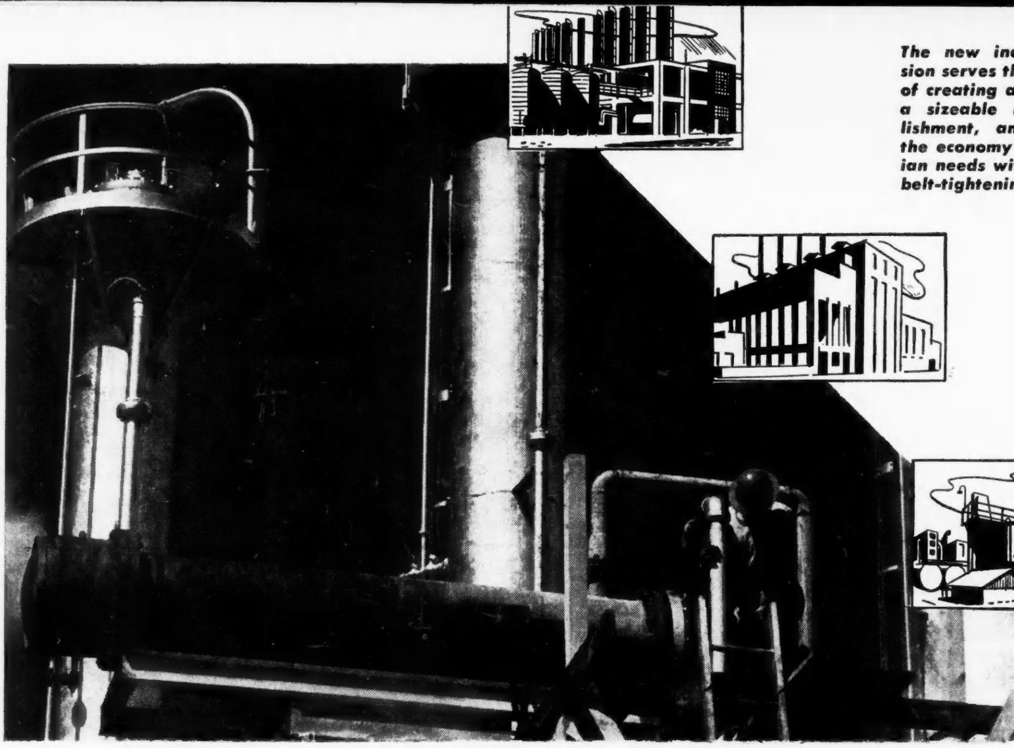
In looking on the bright side, the market has shown relatively little concern over the tax threat and the matter of anti-inflation controls, perhaps partly because these things were thought to be at least a few months ahead. But now they are coming closer; and we question whether they can continue to be ignored.

When The Election Is Out Of The Way

In some sections of the Government a very tough anti-inflation policy is favored. That is so of the semi-autonomous Federal Reserve Board. Only a few weeks after the first mortgage-credit curbs and consumer-credit curbs were put into effect, the Board tightened them quite severely—severely enough to cut home building sharply, and considerably to reduce effective demand for automobiles and most other items of consumers' durable goods. This evidence that the Board "means business"—and awareness that there are other restrictive moves in the offing —no doubt contributed to market softness in recent days.

There are credible reports that Stabilization Boss Symington and the military top-command are arguing for direct price-wage controls, without much further delay, as a means of preventing inflation from kiting the costs of the arms program. A start on such controls may well come after the congressional elections are out of the way. Indeed, this probably will speed anti-inflation moves of all types, if the elections are more or less favorable from the Administration's point of view, as now seems probable. Since actual arms orders will not be important, relative to total economic activity, for some months to come, the credit restrictions already imposed, after several months of heavy forward-buying by consumers and businessmen, could readily contribute to some degree of interim softening in business, as detailed in a special article on following pages.

The wishful thinkers ought to know by now that in the drive for higher Federal revenue the corporations are bound to be prime targets. That is the only way that the coming higher levies on individuals, who will necessarily pay the major part of the bill, can be made politically palatable. You should probably allow for both a fairly stiff EPT and a further boost in the normal corporate tax rate. Since personal tax rates will be higher in 1951, there will be much profit-taking selling between now and the end of the year by people who have short-term profits or whose tax rate on long-term gains is under the 25% alternative maximum or who figure that the capital gains rate might possibly be boosted next year. Not all of the proceeds of such sales will immediately go back into (*Please turn to page* 100)



The new industrial expansion serves the dual purpose of creating and maintaining a sizeable military establishment, and yet enable the economy to supply civilian needs without excessive belt-tightening.

Photo by Standard Oil (N. J.)

New INDUSTRIAL EXPANSION Ahead

—TO MEET REQUIREMENTS OF DEFENSE ECONOMY

By E. A. KRAUSS

Little more than a year ago, 1949 was thought to be the last big year of postwar industrial expansion, with the trend of capital spending thereafter tapering off—perhaps rather steeply. After all, American industry had—on top of very substantial war-time expansion in basic industries—spent close to $65 billion in four postwar years to meet tremendous deferred demands as well as the requirements of a greatly increased population. With certain exceptions, 1949 however marked the completion of most expansion plans, particularly in manufacturing industries. There were even fears that industry may have "overbuilt", that an excess capacity may have been created in some fields that might work as an unwelcome drag on our peace-time economy.

One hears little of such fears today. With business improving steadily for over a year, businessmen as early as last spring were once more scaling up their expansion plans, and after Korea the tempo was greatly stepped up. According to latest estimates, industry is planning to buy new plant and equipment at the second-highest rate in history—a far cry from the anticipated contraction. And capital spending in 1951 may actually break any past record since there is every indication that the uptrend will not only continue but intensify.

This year alone, it is estimated that capital spending will be upped by at least $1.8 billion as a result of the Korean war. Planned capital outlays at the beginning of the year totalled $16.1 billion; they now have been stepped up to $17.9 billion with $9.8 billion scheduled for the second half—close to the postwar peak level in the second half of 1948. The total may actually be higher if previous experience with fourth quarter estimates is repeated, and if industry makes wide use of the funds placed at the President's disposal for financing war-important industrial expansion.

Stepped-up spending estimates are not the only indication of the current trend. There is more concrete corroboration as well, and it goes back as far as the second quarter of this year when purchases of producers' durable equipment rose to an annual rate of $21.5 billion from $19.5 billion in the first quarter, an advance that brought the rate of business equipment purchases above that prevailing at the crest of the 1948 boom. And as late as August, we have seen orders for new machine tools rise to a level six times higher than a year ago, with order backlogs virtually nine times greater than the current rate of shipments. Similarly, engineering construction in September smashed all previous records by a wide margin, with private industrial building mainly responsible for the record volume.

In short, there is no doubt that a new expansion phase is well under way after the preceding one has barely tapered off. The reasons: Anticipation of big defense orders and increased consumer demand all around. The prospect of long term demand generated by a $40 to $50 billion military budget is making industry distinctly expansion-minded.

Moreover, the Government now has the authority and the money to step in and build plant facilities itself if necessary. But except where it is a case of "uneconomic" expansion, indications are that in contrast with World War II experience, industry will do most of the job itself.

Apprehension about the strength of civilian demand had vanished to a large degree even before

Korea as the conviction grew that a major depression was hardly likely. It is the strength of this demand, with defense requirements superimposed on it, which is one of the principal spurs to expansion activity. Since the need for an expensive military establishment is likely to persist for a long time, the long range hope now is for an economy big enough for the dual job of maintaining large service forces and still be able to supply civilian needs without undue belt-tightening.

Industry is getting set for this dual role, an undertaking which has the full blessing of Government which has long contended that the progressive needs of the economy—even without an intensified defense effort—have been greatly underestimated. The trend thus ties in with the official philosophy of expansion aiming at a gross national product of some $350 billion compared with the current annual rate of $270 billion. The program now will be facilitated not only by Government financial aid where needed, but by recently enacted tax incentives permitting accelerated depreciation which will enable industry to write off new facilities within the short period of five years.

Significance of Steel Expansion

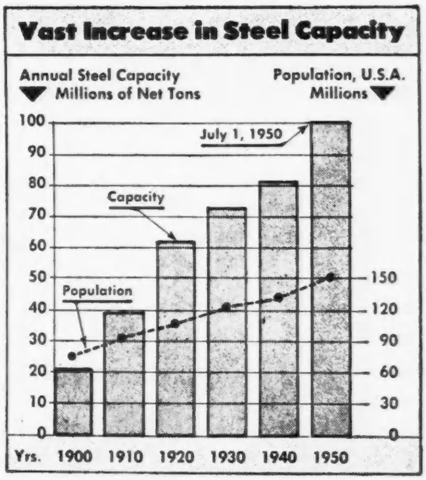
The significance of these expansion moves to our civilian economy is obvious. Thus the steel industry recently announced a program to increase its steel making capacity by 9.4 million tons a year, or about 9%, by the end of 1952; and to add 1.73 million tons to its yearly blast furnace capacity. This means that steel making capacity would be raised to almost 110 million tons annually, and blast furnace capacity to 73.3 million tons.

With steps in this direction undertaken immediately as they will be, *it also means that sharp cuts in civilian use of steel may be avoided next year*—in short, a major move towards a more balanced defense economy. What's more, these plans are in the nature of firm commitments for the future, not suggestions or hopes; this at least is the official interpretation.

The expansion of steel capacity, it will be remembered, has been a primary Fair Deal aim in recent years. It has repeatedly been urged by the President and his Council of Economic Advisers, by Government economists, labor leaders and certain legislators with the implication that "if industry won't do it, Government will." The steel industry probably feels that it is better to build their own plants; few, it is understood, are likely to seek Government aid though some perhaps will have to.

Faster Tempo

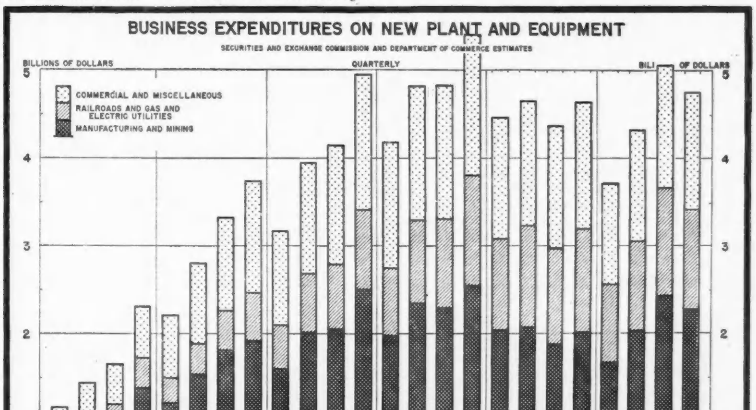
The new program not only means a voluntary enlargement of the steel industry's investment plans by over 50%, but a considerable speeding up of its tempo. Much of the new steel capacity will be added before 1952. Some 2.5 million tons will be ready by the end of this year and an additional four million tons will be ready in 1951, bringing total capacity by the end of that year to 107 million tons.



It's not surprising, then, that makers of civilian hard goods latterly have become more optimistic about the possibility of continuing output at a relatively high level despite rising defense demands for this vital raw material. Were it not for tight supplies of non-ferrous metals, they would feel even better; but these are real bottlenecks.

Copper is especially tight; so is mangenese and other metals. Expansion efforts are going on in these and other supply areas, and the same is true of aluminum. And naturally, to feed the new steel capacity, large capital investments are contemplated for expanding the iron ore supply. As an example: Republic Steel and Armco are planning a $60 million investment to produce some 2.5 million tons from taconite on the eastern side of the famous Mesabi range in Minnesota. Other steel interests contemplate huge investments in Canadian iron ore deposits (Labrador-Northern Quebec).

In the petroleum industry, too, there is a resurgence of expansion plans, particularly to boost output of high-octane aviation gas, and also in an effort to further broaden the potentials of the already giant and relatively new, petro-chemical industry already providing a huge reservoir of raw-materials and chemical intermediates for the manufacture of synthetic rubber, detergents, explosives, fertilizers, medicines, plastics and hundreds of other important products. Additionally, there are plans for large new pipelines, both for petroleum products and natural gas, and the search for new oil resources continues incessantly.



It has been estimated that the oil industry will need 17% more steel next year to meet the nation's requirements for oil and gas products. This points to substantial expansion of facilities and drilling activities.

Nor will the chemical industry rest on its postwar expansion "laurels." Further expansion, in numerous fields, goes right ahead, particularly in synthetic fibers, plastics, antibiotics, insecticides and a good many other products. Since 1940, the chemical industry has virtually tripled its capacity, enormously strengthening it for peace and war, but the expansion process continues wherever the need is indicated.

Other Industries

Capital spending by other industry groups should pick up sharply next year. Even if Government controls are set up to screen spending plans for essentially, the oil industry and pipelines, for instance, should have little trouble getting priorities and allocations, and the same goes for the railroads and the mining industries. On the contrary, the Government is actively sponsoring extensive new purchases of rolling stock by the railroads, of new and modern machinery by the metal mining industry to further the defense effort.

Another area where expansion will be pushed vigorously is electric power, both privately and under Government sponsorship, to meet the threat of possible power shortage in certain regions. Altogether, it is estimated that electric and gas utilities jointly will spend this year something like $3.17 billion for new plant and equipment, compared with $3.14 billion last year. The railroads will spend well over $1 billion as against $1.35 billion in 1949, and their 1951 program is likely to shoot up sharply.

The bulk of expansion outlays is seen in the manufacturing field, however, with $7.8 billion slated for this year and quite possibly even more in terms of actual outlays, compared with $7.25 billion last year and $8.3 billion in the 1948 peak expansion year. In 1951, that peak may readily be matched or exceeded.

We have already pointed out how the new expansion phase can help reduce the need for defense "austerity" in the sense that it will eventually lessen the need for severe cutbacks, drastic controls and restrictions. In other words, it will enable us to have "guns and butter" during the peak years of our preparedness drive, and it certainly will be invaluable, if total war should come.

There could, of course, in the initial stage at least, arise some conflict with the arms program in so far as use of materials and manpower is concerned, hence expansion plans will likely be screened carefully with the prospect that less essential projects may have to be postponed. Apart from money, industrial expansion requires primarily men and materials, each of which must be taken from an economy already working at virtual capacity and already suffering shortages. The problem therefore is to augment productive capacity as rapidly as materials can be spared from current requirements and manpower is available both to build and operate the new facilities.

A factor to be considered also is that expansion in one field usually requires corollary measures in others. Take steel, for example. To make new steelmaking capacity effective, it must be supported by a corresponding extension of capacity in the iron ore fields, in transportation, in fuel and power output, and in the extension of production of such things as manganese and alloying materials.

Far-flung Repercussions

That means that steel expansion alone will have far-flung repercussions and make substantial demands on an already extended economy. In lesser degree, this applies to every type of industrial expansion. It will be different, should the urgency of defense requirements lessen somewhat as might well be the case. But if the opposite should occur, if events should put heightened pressure behind essential expansion, it would have to be to a greater extent at the expense of civilian production than now would seem likely. In that event, steel shortages would remain severe throughout next year, with a resultant terrific scramble for priorities.

From a broad economic standpoint, the new trend towards industrial expansion is not only an encouraging indication of the willingness of industry to forge ahead, but portends a future broadening of our economic base that is bound to have interesting connotations. It will mean more employment, bigger markets, greater national income, enabling us better to cope with the future growth of the nation and also with our fiscal problems. It should also warrant the expectation of a permanently higher business plateau in the future despite the vagaries of the business cycle.

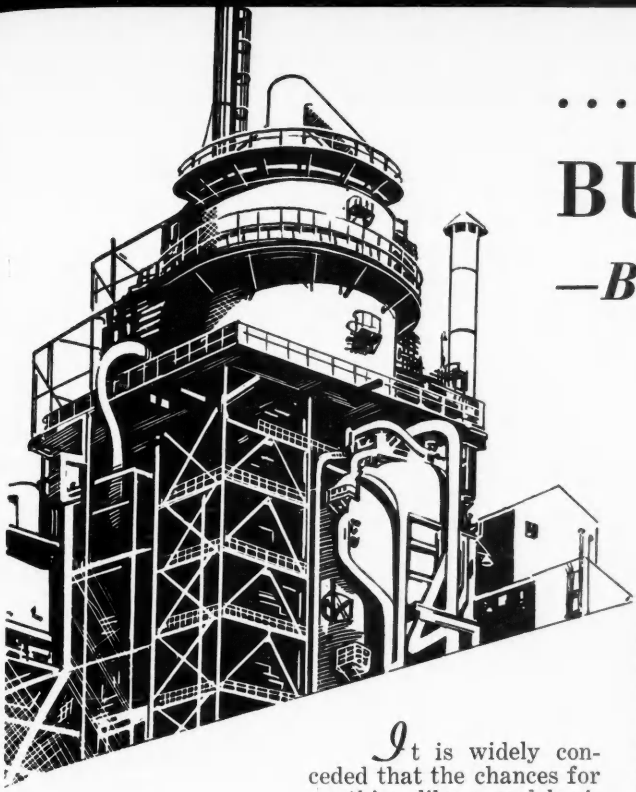
What are the more immediate implications from an investment standpoint? One might well argue that with capital spending again on the uptrend, it may put at least a temporary halt (*Please turn to page* 92)

Expenditures on New Plant and Equipment By U. S. Business

(Millions of dollars)

	1949			1950			
	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-March	Apr.-June	July-Sept.*	Oct.-Dec.*
Manufacturing	1880	1690	1830	1520	1860	2270	2150
Mining	190	180	180	150	160	180	160
Railroad	380	310	300	230	300	320	280
Other transportation	140	140	120	80	90	110	120
Electric and gas utilities	780	790	890	650	760	910	850
Commercial and misc.	1290	1260	1320	1060	1160	1260	1220
Total	4660	4370	4630	3700	4330	5060	4780

Source: Dept. of Commerce and SEC. *—Estimated.

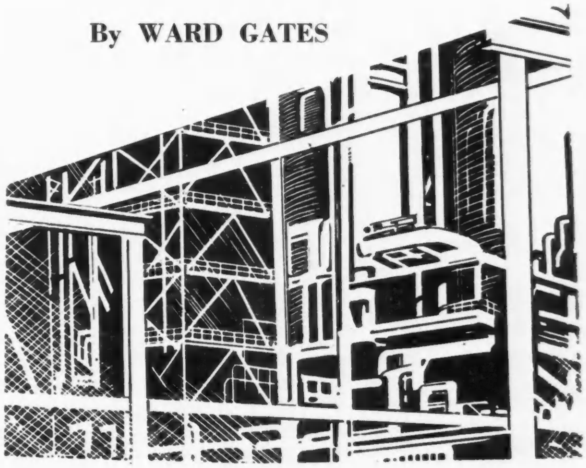


. . . What Prospect of . . .

BUSINESS DIP

—Before Arms Spending Takes Hold

By WARD GATES



It is widely conceded that the chances for anything like a real business recession—after the Korean war ends—are not only negligible but that it is a virtual impossibility for business to slump severely in view of the strong sustaining elements currently operating. It is easy to agree with this viewpoint. Nothing but a dumping of most of the mobilization program could bring about conditions that might eventually produce a cyclical downturn in business, and that is hardly in the cards. Few can believe that completion of the Korean campaign will bring any considerable modification of armament demands.

However it is a reasonable assumption that before the arms program gets going full blast, there might readily be a period of easing in business and even some deflation where prices have been marked up too fast and too much. Such an "interlude in inflation", as it has been called, is not only possible but likely; it has in fact already occurred in some commodity groups.

One can also make a fair case for a temporary let-down in business sometime between now and next spring, probably the latter. It is largely based on three factors: (1) The drastic curbs on housing credit which will cut home building sharply, with considerable recupercussions throughout industry; (2) an expected ebbing of consumer demands, and (3) the prospect that arms orders, currently only a trickle, will not speed up fast enough to offset "deflationary" factors until close to mid-1951.

Talk of a plateau or even a downturn in business was heard before the successes in Korea. There is more of it today as business leaders are beginning to hoist the caution signal. No one anticipates much of a let-down this year though some easing is held possible, but the outlook for the early part of 1951 is viewed with greater doubt. Let's look into the validity of the reasons given.

The latest and fairly drastic curbs on housing credit are designed to slash home building by one-third in 1951. The impact will be widely felt, not just in the building industry but elsewhere too, since the drop in residential building will cut deeply into demand for appliances, refrigerators, stoves, furnaces, washing machines, fans, dishwashers, furniture, home furnishings—in short everything that nowadays goes into homes, and that is a lot. The full effect won't show for several months though housing starts are already off sharply, but when it does, it may force production cutbacks conceivably greater than what might be necessary because of anticipated materials shortages. Fact is, production in the appliance field has run rather heavy for demand, in the long run; and recent scare buying has borrowed a good deal from the future.

There are other factors making for a decline in building, apart from credit curbs. Not only has there been a sharp rise in the supply of houses, but higher prices and construction costs, with the average up 10% against last year, of late have begun to dampen the enthusiasm of would-be builders. Besides, home building in 1950 also has been borrowing a great deal from 1951 when a decline would have been due even were there no credit curbs.

Consumer Demand

Consumer demand is more difficult to analyze but there is evidence that the public will be a rather cautious buyer in the next few months. For one, there has been a lot of anticipatory buying in July and August to "beat" shortages and higher prices, and such spending probably has mortgaged a good many incomes for months ahead since much of it was on credit. The fear of shortages is now greatly

lessened but the threat of higher prices remains.

Yet consumer buying has lost much of its urgency. Retail trade has remained moderately above year ago levels in terms of dollar volume but chiefly because of higher prices. Unit sales have been dropping steadily and are likely to continue so until Christmas buying starts.

Higher Taxes and Livings Costs

Then there is the impact of higher income taxes and higher living costs. They are bound to curb purchasing power, and retailers have yet to reflect higher costs in many directions. It is contended that higher living costs and taxes will be offset by recent wage increases, and indeed there have been numerous advances, with overtime adding to payrolls. But there is a big segment of the public which had no pay boost and is not likely to have one soon, or ever; and which does not benefit from overtime premiums.

There is already evidence of consumer resistance to rising prices, with virtually all lines hit, and conceivably such resistance could deepen any temporary sales drop. Much is made of the huge liquid resources in the hands of the public, and they are large indeed; but there is reason to believe that they have been drawn upon extensively during the midsummer buying spree. Moreover, their distribution is quite uneven. Current income remains the most important factor in the spending picture, and though it is at a high level indeed, the same is true of taxes and living costs. Their pinch will be felt more and more, making people feel "poor", less inclined or able to spend freely.

That feeling may be considerably intensified now that instalment credit has been tightened further because revival of Regulation "W" so far has proved little effective. Automobile sales have felt its effect somewhat although signs of an ebbing in demand were appearing early in summer. Scare buying reversed the trend at that time but things have quieted down again.

Though instalment credit curbs so far have been extremely mild, deflation jitters seem to strengthen the opposition of some businessmen to tighter restraints and commercial banks likewise argue against more stringent controls. They cite the prospect of a large Treasury cash surplus in fiscal 1951 which would be deflationary because it would take money out of circulation. The reason: Slow defense spending and higher taxes already in effect, with the total tax take probably ahead of expectations.

All these arguments pointing towards a temporary let-down in business are certainly not without substance. Against this must be cited that capital goods activity is high and will continue to boom even in the absence of heavy defense orders. Order backlogs in capital goods industries are substantial, much of them originating before Korea and not primarily destined for defense business. But the uptrend in new orders has now been falling off and war orders have not yet had much impact. Still, even without the latter, production schedules should be filled well into the first quarter of next year, and with heavy industry booming, it's hard to visualize much of a drop in overall activity.

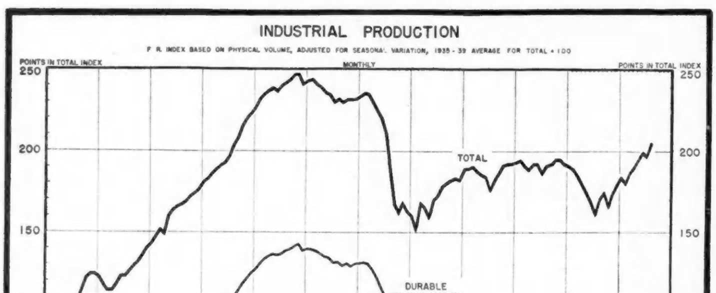
So far there is no sign that manufacturers are glutting their markets and fears that inventories may be top-heavy appear unjustified but buying policies generally have become more conservative and based on production requirements. In some retail lines, however, there are signs of indigestion. Business inventories climbed during August as wholesalers and retailers built up stocks depleted during July's war-inspired buying rush, and some may have been overdoing it.

Points to Cautious Inventory Policies

Retailers' inventories alone rose about $1 billion; chances are that inventory needs may have been overestimated and future inventory buying will likely be more cautious, working in a deflationary rather than inflationary direction for some time. It is partly because of this that some makers of consumer goods, including durables, fear that reduced demand may catch up with them before materials restrictions force cutbacks some months hence.

Signs of inventory accumulations appear on various fronts, particularly in soft goods. They are found among paper users, even among steel users where some steel products have been going into stocks. It is said that liquor sales to distributors since Korea have been little short of "fantastic", but consumer buying hasn't advanced notably. Fact is, manufacturers have been shipping out finished goods so fast that they themselves couldn't build inventories, much as they wanted to. They may have a chance, should there be anything like a real inventory build-up among users; and that in turn should at least temporarily lift pressure on prices, if not on production.

In analyzing the situation, it must be remembered that the recent terrific spurt was in civilian production exclusively, with both durable and non-durable goods lines participating. Since further gains in output of durables cannot be expected because of materials shortages, credit curbs etc., and since several non-durable industries may be inclined to cut back operations for a while if retail sales meet greater resistance, it is difficult to visualize any further substantial boost in the level of industrial activity until defense orders do the boosting; and that will then be largely at the expense of civilian

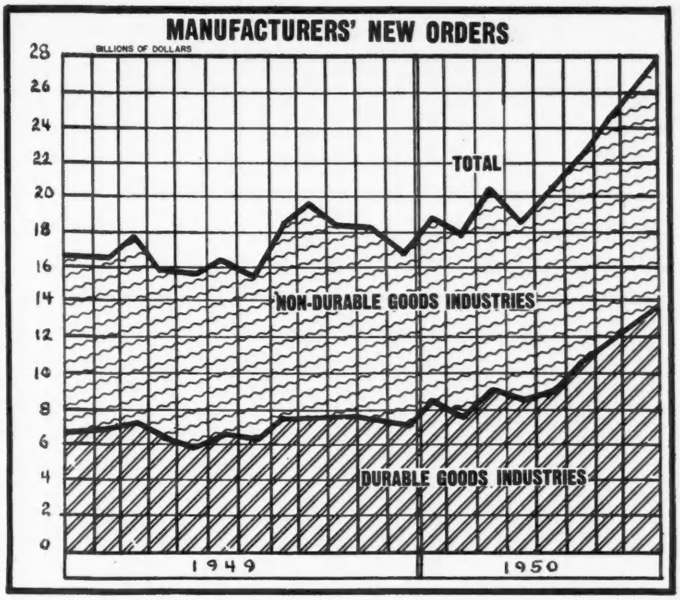


production. Until the big defense boost comes, activity may well decline for a while.

The hoarding rush of the past three months has built up inventories, especially in consumers' hands. Should the view gain ground that the anti-inflation program will succeed, a dip in buying could well follow while stocks on hand are being used up.

For that reason, what's ahead on the domestic control front may have an important bearing on the outlook, may in large part determine whether any let-down in retail sales and possibly production will be held to a minimum. Should the Administration's anti-inflation program fall short of its mark and necessitate stricter controls earlier than generally anticipated, this might encourage consumers to buy now rather than wait. And as long as there is any uncertainty on that score, it is bound to sustain civilian buying and civilian output, the latter even if it should result in a backing up of finished goods inventories for a while.

In other words, Washington control policies might well, though unintentionally, fill the gap that might otherwise arise until the defense program really takes hold.



Instalment credit curbs are a good example of how this may work. The recent tightening virtually turned into a sales argument with customers, fearing bigger down-payments and shorter repayment periods, rushing in to buy. Thus a move designed to check consumer buying actually stimulated it. There is no reason to assume that the threat of any further credit tightening, already widely rumored as not far off, will not have the same effect. Whether this will happen, still remains to be seen. If it does happen, it would also mean "borrowing from the future", though perhaps less so, depending on its timing; because once the arms program is well under way, resultant substantial additions to purchasing power will probably take care of the situation.

Much of course depends on the speed with which military orders will be placed; indications are that they won't appear in any heavy volume until after the first quarter of next year. But once they get going, they will rise for a year and a half. For that reason, military orders will set the pace for American business throughout the next two years or so. What's in question is how much of a gap until they appear in volume, how much of a leveling off or let-down in overall business until they have picked up momentum.

Short-Range vs. Long Range Outlook

Admittedly it is a short range question, the answer to which is that while a temporary let-down is possible, even probable, it won't be serious and it won't last very long. Uncertainty, however, does not center on the short range outlook alone.

There is even more as far as the long pull is concerned—what may happen a year or two hence when there may be heavy pressure in favor of "easing up" on the arms effort, always provided that the international situation doesn't deteriorate further. The official line is that there can be no easing up and this attitude may even speed the entire program if only to get it well started before things cool off, particularly should the war in Korea end soon. But how persistently peacetime austerity will be urged and maintained in a presidential election year is another question, unless it is answered beforehand by circumstances, that is by Russian actions.

Reverting to the short range picture, the problem of reducing overall demands on the country's productive facilities in the interest of the defense effort is simplified by the fact that so much buying, both before and since Korea, has centered on consumers' durable goods and housing, and by far the greater part has been on credit. It can be readily curtailed by tightening credit terms, and such restrictions can be directly and quickly effective in choking off private demand. It is also possible to overdo such restrictions, or apply them too soon as some argue is being done, and render idle productive facilities and workers in excess of what current armament work can absorb. It is on this premise that a temporary let-down in business is anticipated early next year.

Powerful Medicine

There is no question that the curbs on housing credit and renewed restriction of instalment credit could be powerful medicine, perhaps powerful enough to throw the economy for a considerable loss in the near future since it may be knocking out the major props of the postwar boom prior to Korea — easy money and easy credit.

We are still having mainly a consumer boom. Employment, production and payrolls are at high levels and have continued to advance largely because of the panic buying by consumers following outbreak of the Korean war. People have been spending heavily in anticipation of higher prices, imposition of controls and restrictions, shortages because of smaller civilian output to meet military demands. Such spending is now slackening, easing the pressure in many directions with prices tending to stabilize. Other deflationary factors include tighter credit, higher taxes, more controls, higher interest rates. What it adds up to is a short-lived deflation—until the arms program takes up the slack.

Candidates For Year-End Extras

By J. C. CLIFFORD

The broad pattern in which corporate earnings have advanced in the current year, together with valid expectations that the fourth quarter will prove quite prosperous, suggests that year-end dividends should be numerous and quite liberal. When 1950 ends and managements can figure out definitely what they have earned for the full year, after allowing for increased taxes and their capital needs in 1951, results this year undoubtedly will permit an impressive number of supplementary dividends.

Such a development would be natural in many cases where 1950 earnings have established high records and a comfortable financial position has been assured. Even where dividend rates have been lifted during the current year, or occasional specials paid, the earnings coverage may be wide enough to encourage treatment at the end of the year. While statistical evidence, though, may support hopes of greater dividend liberality, the rearmament program will create some new problems that presently are still rather obscure even to managements. For this reason, appraisals of year-end dividend prospects should lean to the cautious side.

Among factors that may induce greater conservatism in dividend policies than now might seem logical is the certainty that more working capital will be needed to carry expanding inventories at increased prices. Additionally, newly formed plans to extend plant improvement programs beyond recent expectancies could influence year-end dividend decisions, not to mention the desire to reduce borrowings ahead of schedule. Then there should be some distinction between companies that habitually pay year-end extras and those not usually found in this group. Finally, there is always a chance that a year-end payment may take the form of a stock dividend in order to conserve cash. The prospect of higher taxes and a speed-up in tax payments may also enter considerations.

Directors of American Viscose Corporation, in calling for a special stockholders' meeting to vote on a 2 for 1 stock split in November, indicated that regular quarterly dividends on the increased number of common shares then outstanding may be 50 cents a share compared with 75 cents on the pre-split stock. Despite this lift in the rate, an announcement was made that in December the question of an extra cash dividend would be considered.

The company could afford to pay a liberal extra. All plants are working at capacity, the company is sold out for months ahead and 1950 net earnings, after allowing for increased taxes, seem likely to exceed the 1948 record high of $13.65 per share on the present capitalization. For a number of years, American Viscose has declared year-end extras, and in view of its strong financial position, 1950 should be no exception. As of June 30, holdings of $88.5 million cash and Government securities alone compared with $38.5 million current liabilities, and the company has no funded debt.

B. F. Goodrich Co.

Although net earnings of B. F. Goodrich Company in the current year may exceed $16 per share at present tax rates versus $14.36 in 1949, a quarterly dividend rate of only $1 per share has been maintaind thus far in 1950, as was also the case last year. At the end of 1949, the directors declared an extra of $1.50, indicating very conservative policies in view of the wide earnings coverage. There is ground to expect at least equal liberality at the end of 1950, but the company might well do better.

While the Rearmament Program will widen the company's scope of operations by the reactivation of Government-owned synthetic rubber plants, current rapid turnover of inventories has eased working capital problems. Although Goodrich continues to spend sizable amounts on plant improvements and in March 1950 retired 100,000 shares of preferred stock, working capital of $162.6 million on June 30 last was $8 million larger than a year earlier. In the circumstances, it appears that a more generous share of earnings may be distributed to stockholders during the final quarter, especially since volume should remain at a high level in 1951.

Montgomery Ward & Company is a very likely candidate for a year-end extra. Net earnings of

$4.14 a share in the first half of 1950 were 90% above the same period of last year, and with the best period of the year remaining, broadly influenced by scare buying, the final six months should prove even more profitable. Despite these favorable factors, the directors have declared ultra-conservative quarterly dividends of 50 cents per share during the first three quarters. It has been a common practice of this company to supplement quarterly dividends with a year-end extra, hence only its amount probably remains obscure. Last year it was $1 a share.

That this year's payment should be liberal is indicated by modest outlays for expansion in postwar, a current supply-demand situation that practically eliminates inventory risks, an excellent current ratio of 5.7 and the certainty that 1950 earnings will warrant a juicy extra dividend if the directors so decide. Large earnings provide an ample cushion for increased taxes.

By declaration of a 25% stock dividend in September and establishing the quarterly dividend on the increased shares (through 2-1 split) at 75 cents, International Paper Company has already encouraged its stockholders, but this may not preclude payment of a year-end extra. In 1949 the company paid an extra dividend of 50 cents (adjusted) in December, and total payments for the year represented about 35% of net earnings.

If this same conservative percentage were applied to estimated earnings of $8.50 a share for 1950, on the recently enlarged capitalization, a year-end extra comparable to that of 1949 would have to be paid. Substantial completion of postwar improvements, however, combined with an impregnable financial position, could well induce the directors to distribute an increased share of earnings. This seems especially true in view of the company's bright outlook for business ahead.

Dixie Cup Company

Another concern in the paper industry, Dixie Cup Company, has made such satisfactory progress thus far in 1950, that payment of a year-end extra dividend would create little surprise. For almost two years, the earnings of this firm have been trending steadily upward, but quarterly dividends have been lifted only moderately from 25 cents a share to 37½ cents in the period cited.

Considering that Dixie Cup reported net earnings equal to $8.58 a share for 12 months ended June 30, 1950, and averaged better than $7 for all of 1948 and 1949, the time should be near when the directors become more liberal. This is a growth situation where in order to finance (*Please turn to page* 98)

Statistical Data on Potential Candidates for Year-End Extras

	Net Income Available for Common Dividends (Per Share)		Total Dividends Paid Out		Percentage of Total Paid Out of Available Income		Recent Price	Price Range 1950
	1949	1st 6 mos. 1950	1949	1950 to Date	1948	1949		High Low
Admiral Corp.	$ 4.12	$ 4.24	$ .80[1]	$ .75	23.3%	22.0%	31⅞	39¼-17¼
American Can	10.02	—	4.00	3.00	49.4	39.9	104	120⅜-90⅛
American Cyanamid	5.28	4.55	2.00	3.37	39.0	37.8	71½	76⅜-49
American Smelting & Refining	8.22	4.20	5.00	4.00	40.8	60.8	65⅜	65½-50
American Viscose	9.33	7.51	4.00	2.25	33.0	42.8	100½	106-64⅜
Boeing Airplane	4.08	5.51	2.00	1.00	63.3	49.1	36⅜	38-22⅞
Borg Warner	9.16	6.62	5.50	5.00	41.1	60.0	69¾	73¼-55
Caterpillar Tractor	4.89	4.07	1.75	1.50	41.0	35.7	44	45¼-32⅛
Chrysler	15.19	4.54	5.25	7.75	39.0	34.5	82¼	84½-62½
Cities Service	14.87	7.45	3.50	3.00	16.8	23.5	83⅝	85¾-63½
Commercial Credit	9.16	4.60	4.00	3.60	37.7	43.6	52½	67⅜-45¼
Continental Oil	7.48	3.55	4.00	3.00	31.1	53.4	78½	81¼-55½
Deere & Co.	12.42	10.07[1]	5.00	2.00	34.4	40.2	57	58¾-38½
Dixie Cup	7.44	8.58[2]	1.12	1.12	14.9	15.0	45¾	46¾-35
Eaton Manufacturing	4.61	3.79	3.00	2.00	56.8	65.0	37⅞	38 -29
Firestone Tire & Rubber	8.82	6.68[3]	4.00	4.00	28.9	45.3	74¼	75 -52½
General Motors	7.32	5.45	4.00	3.50	46.3	54.6	53⅞	54¾-48⅞
Goodrich (B. F.) Co.	14.36	8.76	5.50	3.00	33.1	38.3	114½	115¾-69¾
Goodyear Tire & Rubber	10.32	5.08	4.00	3.00	39.0	38.7	61½	64⅞-43¾
Industrial Rayon	6.01	4.07	3.00[4]	2.25[4]	36.1	49.8	60	65½-42½
Inland Steel	5.11	4.38	3.00	2.00	38.0	58.7	50⅜	51½-38
International Paper	7.12	3.74	2.50	2.00[4]	37.4	35.1	45¼	59¾-33⅞
Kennecott Copper	4.45	3.49	4.00	3.25	57.6	89.8	65¼	66¼-49¼
Libby Owens Ford Glass	4.10	5.88	2.87	2.00	62.9	70.0	36⅛	39⅛-34⅜
Lockheed Aircraft	5.10	4.29	2.00	1.50	25.8	39.2	31⅝	34⅞-23⅝
Lone Star Cement	10.34	5.00	4.50	3.62	55.0	43.5	73¼	81 -60⅛
Minnesota Mining & Mfg.	7.07	4.80	2.60	2.20	32.2	36.7	119½	128½-94
Montgomery Ward	7.13	4.14	3.00	3.00	29.1	42.0	65⅝	66⅞-49⅛
National Lead	3.88	3.54	2.25	1.25	36.2	58.0	50¼	53 -35
Pennsylvania Dixie Cement	4.37	2.09	1.75	.90	30.9	40.0	23⅝	28 -18¾
Pfizer (Chas.) Co.	5.18	2.63	2.75	1.50	43.3	53.1	70	75¼-51¾
Ruberoid	8.72	3.85	3.25[4]	1.75	27.5	37.2	52¼	61 -43⅞
Thompson Products	10.73	7.42	3.00	2.00	39.1	27.9	69½	73½-51¼
United Fruit	6.25	3.90	4.00	4.50	66.5	64.0	64½	66 -50¼
Victor Chemical	3.35	2.56	2.00	1.35	69.4	59.7	47¼	51¾-39¾
Wrigley (Wm.) Jr. & Co.	6.30	3.41	5.00	4.50	68.7	79.3	81	89¼-70
Youngstown Sheet & Tube	9.48	5.45	3.00	2.50	23.4	31.6	51¾	53 -36⅜

1—9 months ended July 31, 1950.
2—12 months ended June 30, 1950.
3—6 months ended April 30, 1950.
4—Plus Stock.

Early Price Controls Ahead?

By E. K. T.

CIVILIAN employment in the military agencies may soon be half a million more than in pre-Korea days. A quarter-million personnel boost was approved by congress in its closing days and the recruitment is progressing. However, if the armed strength goes to 3 million, as now projected by the President's program, another quarter-million "men behind the men" must go on the payroll. That will add substantially to the costs of defense, but it will go beyond the payroll items and into the costly field of space provision. The huge Pentagon Building and its auxiliaries aren't big enough. The prospect of military "regional offices" is looming.

WASHINGTON SEES:

With great reluctance, the Administration has arrived at the conclusion that selective price controls must be attempted before many weeks pass in spite of a conviction that resistance and confusion will follow and a secret belief that no system can be worked out that will approximate success.

As predicted, building materials will be first, to be followed by a long list of basic raw materials consumed by industry. That's about as far as the Economic Stabilization Agency can reach in its formative days, but the coverage will expand as the organization gets its feet on the ground and grows.

The government economists and advisory committees of businessmen and industrialists are agreed that to wait for a setup capable of placing ceilings over all commodities likely to come into short supply would delay action for as long as 10 months. Therefore the piecemeal system, which wasn't a success in World War 2, has been selected as the lesser of the two administrative headaches.

Aggravating the situation are the demands from several segments of labor, notably steelworkers and railroad men, for new pay raises, plus the decision to pour defense funds into the channels of supply as fast as they can be absorbed. Price increases and materials shortages are the inevitable results.

Understandable worry in government circles is: what will happen to the labor supply when prices and wages are frozen affecting a single raw commodity, say, copper? War manpower control is the obvious answer, but again months would be required to create it.

RESIGNATION of Carl R. Gray, Jr., Veterans Administrator, may mark the next major switch in the sub-Cabinet level. Gray is on leave of absence to make a survey of the European railroad situation, is due back in November. He's a railroad executive and it is rumored that industry would like his services as a coordinator to guide the lines through their current problems. In one form or another money is handled by a VA Administrator in huge quantities—payroll, vet benefits, hospital construction and operation, etc. —but Gray as a businessman has been an exception to the rule of military or political domination. Hence, great interest in successorship now.

LIQUOR PROHIBITION forces, usually the first non-military segment of the population to go all-out in time of war, are unusually silent. And their very silence has the alcoholic beverage industries somewhat worried: they're wondering whether it's the calm before the storm, yet they cannot anticipate where the action may come, how to prepare for it. Even the tempest in the beer can (whether GI's in Korea should receive their daily one can of brew) didn't stir the dry army to flailing of protective arms. Wets are hoping it means only that their campaign of moderation is paying off, that their industry respectability is the potent, effective argument.

PEACE has been restored to the National Labor Relations Board but it is too early to estimate at what price. After three years of battle between the five-member tribunal and its General Counsel, the new legal director—George J. Bott—has joined the board in a major declaration of jurisdictional policy. It is clear that Bott, unlike his predecessor Denham, will accept jurisdiction to mean whatever the board says.

As We Go To Press

The military and diplomatic high commands reported to President Truman before he took the fateful move to Korea. As everyone knew, the section covering this country's preparedness for armed conflict was not encouraging. Neither could be the data on logistics — the terrific task of moving men and mountains of material over so long a route. There was another phase of the reporting which has been little discussed, namely, estimates on the size and availability of Joe Stalin's bankroll. And the White House has become convinced the guessing was good: Russia was not economically strong nor willing to pay high for victory.

The analysis could be little more than guesswork in the absence of financial or trade reports from the Kremlin. The size of the Red army, plus its satellites, was recognized to be overpowering numerically, but the White House gambled that neither the bankroll nor the manpower would be thrown into Korea unless, of course, there was swift and decisive victory for the southern army, in which case Stalin would move in for the kill. It was the long chance, the calculated risk, and it seems to have paid off.

Every convincing voice at the command of the Administration is being recruited to the service of warning the United States that the war is well on the way to being over, but the danger of war is not. The tenor of the crusade is that the hazard will exist so long as countries opposed to democracy have hope of ultimate success; that the insurance is a well-militarized nation, amply equipped with operative material, with large stockpiles, a big standing army and navy and a huge trained reserve. President Truman and General Bradley know resistance to civilian controls, high taxes, and disruption of the living schedules of youths will grow as the fortunes of war continue to favor the United Nations. The next bi-partisan effort, if they have their way, will be directed to full-scale, continuing preparedness.

Wrinkling the brows of fiscal chiefs in Washington are reports seeping in here that candidates for congress at several points throughout the country are hinting — not saying — that it may not be necessary, after all, to enact an excess profits tax on corporation earnings. With restoration of peace the costs might be amortized over a longer period of years, the story runs. The Treasury's answer will be strong suggestion that it may even be necessary to go beyond the taxation of corporate incomes, also create an excess profits tax on individual incomes.

Such a program has been talked of in the congressional cloakrooms. It didn't get very far, probably because the lawmakers weren't disposed to have that issue injected into their re-election campaigns. But the Administration now is reported to feel that mention of this possibility will emhasize the need for immediate collection of large amounts of tax and that non-corporate interests, individuals and others, will be encouraged to renew their demands for heavier levies on the "big companies." In application, an excess profits tax on individuals will drain off the excess of current earnings over those enjoyed during a base period of a year or two "before Korea."

There is a distinct possibility that the returning congress will repeal the new anti-communist law, even before the organization for its enforcement gets to work on it. There is certainty that a repealer will be tossed into the legislative hopper on the opening day or soon thereafter. President Truman's veto message obviously made a greater impression on some parts of the general public than it did on the men and women to whom it was addressed. The objective — registration and control of communists and their fellow travelers to restrain them from endangering national security. But there remains the troublesome question of methods which goes back to the Dewey-Stassen debate days.

Motorists, the trucking industries, and shippers of highway freight will suffer no loss of gasoline in terms of quantity but will begin receiving a lower grade soon. For

some reason, the government agencies involved have preferred to keep it a secret, but the word has gone out to refiners to concentrate on aviation gasoline, leaving the by-products to fend for themselves. It should make little difference to motorists in the operations of their cars; most don't understand the "octane high" factor anyway. And it should make no change necessary in distributors' advertising since there is very little specification and there will still be a high — but not as high — octane count as formerly.

It may be a fact-finding expedition and nothing more, but the current trip to Britain by a "task force" of the Treasury's tax legislation division has representatives of business worried. There was no fanfare about the selection or departure of the committee, but when the plan became known, the Treasury frankly stated the purpose is study of a subject close to its heart — excess profits tax as it is applied in England under the Labour Government. The suggestion that British tax standards might be applied in the United States produces shudders in some circles in Washington.

Congress appropriated roughly (quite!) or authorized for expenditure 58.659 billion dollars in its programming for the fiscal year ending next June 30. In normal times, with the budgets approved by congress and the taxes to meet them already being in the collection stage, it would be possible to tell how much money will actually be spent, whether the expenditures will be coverd by taxes, whether the fiscal year will bring on a balance or a deficit. Not so today. The financial rules were changed in the middle of the game due to the Korean situation and the results can only be guessed at.

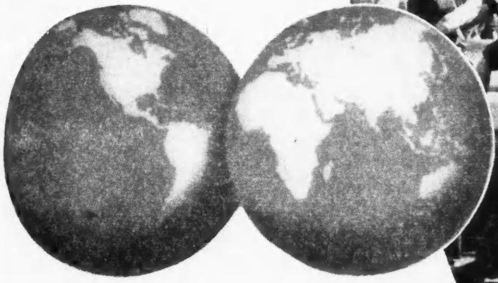
While the agencies could legally spend 58-plus billion dollars this year, they won't lay out that much money. It's actually too much to handle in the allotted period of time. Some of the larger items which will carry over are found in the military materiel procurement program which will be "on order" when this fiscal year ticks off, and in the foreign aid programs. The Council of State Chambers of Commerce offers a forecast which Treasury chiefs won't indorse but privately say could about hit the nail on the head. Estimated actual expenditure, 47.2 billion dollars; tax income (including levies already made to meet the Korean problem), 43 billion dollars; deficit at year's end, 4.72 billion dollars.

The Administration is determined to win the role of "friend of small business." President Truman, it will be remembered, sent a special message to congress asking for preferential treatment for little enterprises with respect to government financial aid to set up, expand, and finance the processing of goods to fill orders. Congress did nothing about it. Now the Commerce Department has teams of experts roving the country, conducting seminars to explain how small business may qualify for defense orders. Accompanying each is a Pentagon procurement adviser. The method may produce results, but the federal statutes still provide that small business gets the break only when it matches or bests its larger competitor's price and ability to perform.

Nothing but all-out war will stand in the way of payment to GI insurance policy holders of the second dividend planned for next year. In view of unsettled international conditions and the drain on public and private funds, feelers had been sent out on a possible postponement — half a billion dollars is involved. But the vet groups heard the rumors, went into action, and appear to have defeated the suggested postponement for one year.

The GI vote can count so heavily in any national election that, as everyone knows, Congressmen of both stripes fall all over themselves to win the favor of veterans in all ways. For this reason, the recent violent attacks on State Department policies, and demands for the removal of Secretary Acheson, featuring the American Legion convention in Los Angeles, have been very disconcerting to the democratic leaders. With similar strong criticism stemming from the Marines over President Truman's unfortunate letter, a very substantial body of voters might well influence results in the coming polls.

Still another important segment of the GIs, the Veterans of Foreign Wars, have expressed great dissatisfaction over Administration policies. Altogether, the widespread popularity of all veterans, together with the large number of their family votes, will add up to a telling force when election day arrives.



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News Around The World

By V. L. HOROTH

KOREA'S REHABILITATION —A SHOT-IN THE ARM FOR JAPAN

The campaign in Korea has done wonders in making the Japanese people receptive to democracy and in erasing the bitter memories of defeat. "Japan and the United States were on the same side in World War I; Japan got on the wrong track and lost America's friendship in World War II; now the Japanese people want to demonstrate that they are back on the American side again," one of the leading Tokyo papers wrote recently.

The Japanese people no longer feel that they stand alone; they have again a sense of "belonging" and are anxious to show it. Thousands of young men sought eagerly to join the U. N. forces, but in view of the past record in Korea, the reappearance of Japanese troops could have been easily misrepresented.

Many people have been uncertain about Japan's economic prospects in view of serious problems facing her: Over-population, the big gap in international payments, the shortage of working capital, and the necessity for reorientation of her trade toward Asia and Africa. But it seems that the Korean troubles may help in their solution. For example, the opening of North Korea should provide an access to much needed fertilizers and industrial chemicals, as well as to such raw materials as iron ore, tungsten, mica, graphite, wood pulp, and timber.

Even more helpful, particularly for the closing of the gap in Japan's international payments, should be the rehabilitation spending in Korea. Japan is likely to profit for two reasons: (1) her nearness, and (2) because most of the Korean public utility installations, railway equipment, tools, etc., are of Japanese origin. Japan is the logical source for replacements, particularly since there is still a considerable unemployed labor force and idle industrial capacity.

It has been estimated that during the past three months, some $100 million in special orders for motor vehicles (trucks), railway equipment, steel, and machinery have been placed in Japan. More railway equipment, steel, and machinery are expected to be ordered along with highway graders, bulldozers, tools, factory equipment and chemicals.

In view of all this, the prospects for Japanese exports look encouraging enough. The 1949 exports (chiefly textiles) were built up to $510 million. During the first half of 1950, the annual rate of exporting, largely because of the expanding trade in machinery and metal products, was brought to the $750 million level. By the end of this year, they are expected to reach at least the $900 million rate.

In order to pay for the imports necessary to restore the prewar standard of living, it is estimated that Japan must export about $1,300 million worth of goods. This goal seems now quite attainable. A more optimistic outlook insofar as the future is concerned is also reflected in stock market prices, which have turned upward after a disastrous decline throughout most of 1949.

Britain's Long Range Plans to Aid Southeastern Asia

Guns and a guarantee of free elections are not enough to win the free peoples of Southeastern Asia to a sincere cooperation with the West against the threat of communism. The West must convince

the Indo-Chinese, Burmese, Indonesians, Thais, Malayans and the Phillipinos that it is not merely against aggression, but also ready to hold out a helping hand in removing the ever-present threat of hunger by improvement of agriculture and development of local resources.

And the West must show that the humiliations of an inferior colonial status are definitely a matter of the past, to be replaced by equality and dignity. All this will take time, patience, tact, and evidence of sincerity.

It is a mistaken notion that only the United States is engaged in winning the Southeastern Asia for cooperation with the West. There is no doubt that we have spent a great deal of money in the Philippines, that we are providing the bulk of military aid in Indo-China, and that considerable aid is to be allocated to Siam, Burma, and Indonesia ($11 million to each) and even to prosperous Malaya ($5 million). This does not include the funds that are likely to be spent in Southeastern Asia under the grandiose but somewhat nebulous Point Four Program.

The British, too, are doing their share, but doing it more quietly and spending less money. They have been concentrating on the Commonwealth areas. During the first conference, convoked last January in Colombo, Ceylon, for the purpose of discussing plans to help Southeastern Asia, the conferees decided to grant a £7.5 million loan to the ex-member of the Commonwealth—Burma. During the second conference, held last May in Sydney, Australia, it was agreed to spend £8 million on a three-year aid program. The third conference, which has just adjourned and which was held in London, considered the carrying out of a six-year program, with special emphasis on the expansion of food production. It was estimated that the population of Southeastern Asia, including India, is likely to rise by 150 million during the next 20 years.

The projects considered included the improvement of agricultural practices in India, the increasing of Indian cotton and oil seed crops by 30 per cent and grain crops by 8 per cent, the doubling of the cultivable area in Ceylon, and the draining of swamps in Pakistan. The latter is expected to add about 5 million acres to the present cultivable area. The carrying out of these plans over the six-year period depends, however, upon some financial assistance from the United States and the International Bank.

Up-Valuation or De-Valuation?

Instead of clearing the atmosphere, the unpegging of the Canadian dollar has spurred up-valuation and de-valuation rumors. Basically these rumors reflect the insecurity a rising from the present perilous international situation and from the loss of confidence in the dollar rather than any marked change in the economic situation of the countries concerned. What remains remarkable is the volume of funds flowing from one country to another in search of security and profits, considering that relatively few countries—among others, the United States, Switzerland, Mexico, Cuba, Uruguay, Venezuela, and Belgium—permit unrestricted movement of capital.

Finland

In contrast with everybody else, the Finns have been talking of further devaluation, the third one in 15 months. As a result, the dollar, which prior to July 1949 bought only 136 finmarks in the official market and buys 231 marks now, is expected to appreciate, nearer to 300 finmarks, the current black market rate. Ever since the end of the war, Finland has suffered from spiraling prices, costs and wages. This has not been because of any mismanagement; on the contrary, the Finns have been working extremely hard, and tax themselves as severely as any European nation. But the financing of the tasks to be performed—repair of the war destruction, replacement of the plants ceded to Russia, reparations to Russia, and resettlement of refugees has lead to heavy budget deficits.

And there has been no Marshall Plan aid to fall back on, as in Western Europe. The devaluation seems to depend upon the outcome of the metal workers' union strike. If the strike is won and a general wage increase follows, the finmark will have to go down to enable the principal Finnish products, lumber, woodpulp, and paper to compete successfully in world markets.

Austria

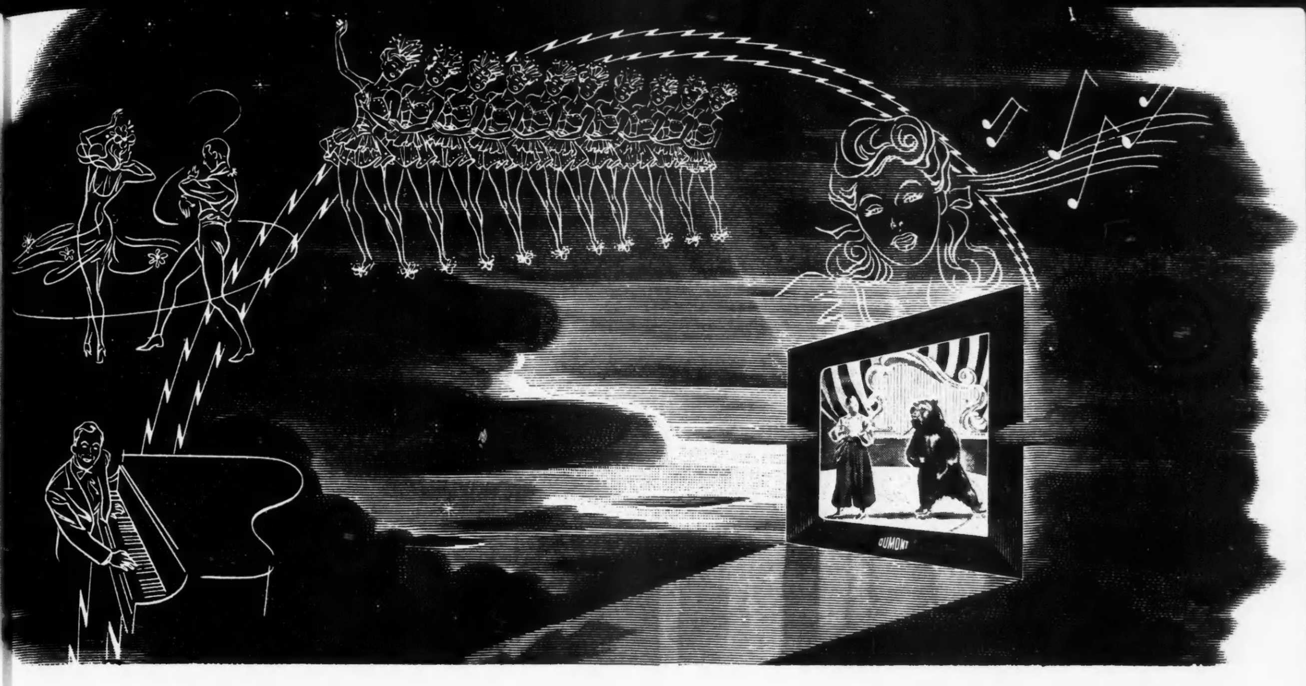
The "devaluation" of the Austrian currency to 21.4 schillings to the dollar last week, was really no devaluation at all, but simply the acknowledgement that the effective rate at which exporters sell foreign exchange to importers (the so-called commercial rate) is to be the "official" rate. The rate for tourists and capital transfers remain at 26.1 schillings to the dollar.

The economic situation in Austria improved remarkably in the last two years but almost solely as a result of the Marshall Aid. Tourist trade last summer was encouraging. But in spite of all the progress, Austria would probably collapse economically if Marshall Plan aid were to be withdrawn. Trading with the satellite countries is becoming increasingly more difficult, and the presence of the Russian Army in Vienna is discouraging to any planning for the future. People are unwilling to risk their own money in business ventures. So they either spend it or, if they can, send it abroad.

Mexico

The action taken by the Canadian authorities has lead to a new crop of rumors here and in Mexico City, that the Mexican peso, worth at present 11.5 cents, may also be unpegged to seek its own level. As a matter of fact, up to a point there is a similarity. Like Canada, Mexico has never been in a stronger "balance of payment" position since the end of the war. Industrial activity has never been higher. The up-valuation protagonists argue that if Mexico is to protect herself from inflationary pressures arising from the inflow of capital and increased American buying, the peso will have to be put up in terms of the dollar. The opinion arguing for the status quo contends that a higher peso would lead to a flood of imports from this country.

This explains why the Mexican industrialists regard any peso up-valuation with disfavor. Gold and silver miners as well as non-ferrous metal producers are also against it, since they have to contend with high production costs. The chief beneficiaries would be those Mexicans who sent their money to New York prior to the peso (*Please turn to page* 96)



Re-Appraisal of . . . .
The TELEVISION Industry
Under Defense Impacts . . . .

By STANLEY DEVLIN

To say that the radio-television industry is experiencing record sales and earnings this year is putting it mildly. Results promise to surpass by a wide margin the most optimistic forecasts of leading manufacturers at the beginning of the year. Korean war developments have stimulated demand, if anything, and have hampered production only to a minor extent. Government requirements of strategic materials are increasing, however, and suggest moderate curtailment in TV output in December or January.

Judged by recent production records, consumer sales may have been stimulated by the prospect of price increases and stiffer installment credit terms if not by fear of actual shortages. Dealers have reported some scare buying in August and early September, accounting for greatly enlarged orders placed with manufacturers. Shipments of most popular TV receivers have been on allocation for several months.

Industry compilations disclose that production of television sets in August reached a new high record at 702,287, bringing volume for the first eight months of the year to 4,146,602 sets—about a million sets more than in all of 1949. Despite growing scarcities of tubes, September output is estimated to have exceeded that for August and October volume may be equally as large. Hence, these two months easily may add a million and a half sets, bringing production for the first ten months of the year to more than 5.5 million sets. November and December output is projected at more than a million, indicating that total 1950 production may approximate 6.5 million receivers for an increase over last year of more than 100 per cent.

Radio set production has stepped up sharply this year too with output for the first eight months approximating 8.7 million, compared with about 8.9 million for all of 1949. Manufacturers are equipped to turn out an average of about a million sets monthly, which might point to sales for the year of close of 12 million, an increase over 1949 of 30 per cent or more.

Although TV sales have been boosted by war influences, all evidence indicates that production would have expanded dramatically in any event. Consumer demand has been spurred by the steady rise in national income, by gradual extension of telecasting to wider areas and by outstanding improvement in programs tending to broaden the appeal of receiving sets. Further progress in this direction is certain—especially after technical problems have been solved to permit construction of new telecasting stations and the use of color television.

TV's Role in the Economy

The high rate of industrial employment, attributed in part at least to speed-up of military orders, encouraged demand for all types of household appliances and as a result, the usual summer slackening in demand was less noticeable this year than usual. Sales were stimulated in July and August, of course, by fears of wartime shortages and by record volume of new residential construction providing a market for home furnishings larger than ever before experienced. Government figures recently disclosed a sharp rise in consumer credit in July and August —probably in September, as well—to the highest level in the nation's history at $20,979 million. According

to dealers, a considerable part of the August rise of $614 million could be attributed to sales of television and radio receivers.

The domestic market for television sets gradually is expanding into the South, the Middle West and the Southwest. Telecasting stations numbered 107 in late September when WSM-TV went into operation in Nashville. Approximately 80 per cent of all telecasting stations have become affiliated with national networks to permit telecasting of popular programs which are destined to create a desire for more TV sets.

Technical problems have retarded extension of television networks, but it is doubtful whether the manufacturing industry could have supplied the nation's demands if new stations had been constructed any more rapidly. Considerable progress has been made in solving difficulties arising from proximity of telecasting stations and Government authorities are expected to take steps before long to lift the "freeze" on station licenses. As soon as permission is granted to construct additional outlets, it is assumed that markets for television sets will be greatly broadened. Potential domestic demand has nowhere near been filled. TV sets in use at the beginning of October approximated 8 million, it is estimated, and eventually more than 25 million will be in service, according to trade authorities, before any sign of saturation becomes evident. This estimate is based on the fact that more than 40 million radios are estimated to be in current use—which, of course, allows for the fact that many homes have two or more receivers.

The advent of color telecasting—which would tend to make obsolete in some measure the 8 million TV receivers now in use—is expected to further spur consumer demand. Color promises to add to attractiveness of many types of programs just as it has enhanced box office values of motion pictures. When this development will be ready for public acceptance is uncertain. Competent authorities doubt that it can be successfully introduced in less than two or three years. Government authorities recently have taken steps to speed adoption of color, but because of strong resistance on the part of leading manufacturers, the industry seemed doubtful whether a satisfactory solution could be found soon.

Latest controversy over color arose when the Federal Communications Commission announced that it considered Columbia Broadcasting System's process satisfactory and would authorize its official adoption at once unless manufacturers agreed by the end of September to include in all new sets "bracket standards" to permit ordinary black and white sets to receive in black and white C.B.S. color signals. This action would avert obsoleting new sets if the C.B.S. system should receive approval.

Almost all manufacturers advised the commission, however, that the time limit was too short to allow for immediate changes in production. Litigation was threatened to prevent enforcement of the F.C.C. order approving use of C.B.S. color if it should be issued. Nevertheless, the F.C.C. has just now authorized the Columbia Broadcasting System for color television, effective November 20. This doesn't mean that the public will be seeing TV color pictures right away. CBS has yet to persuade enough TV manufacturers to make the CBS color sets to put them on the market in quantity.

It has been said that thus far military orders have had no adverse effect on television production. Shortages of materials have been comparatively unimportant and have been caused not by military requirements but by the abnormally high rate of consumption in the industry itself. Scarcities have occurred chiefly in tubes, demand for which has been stimulated in no small measure by the unexpected recovery in radio sales.

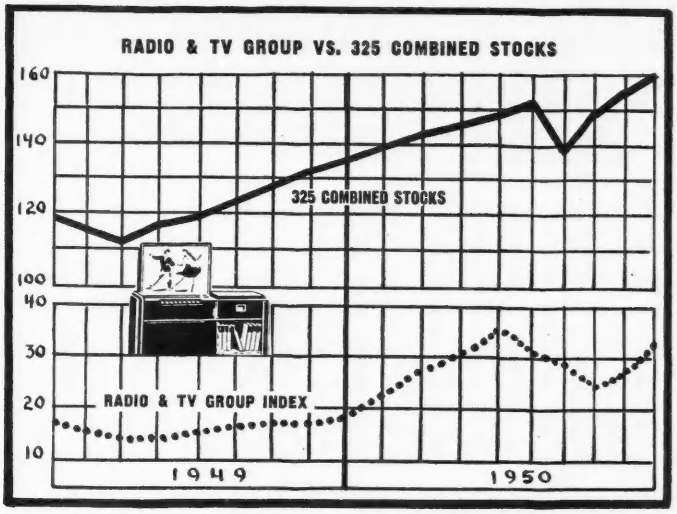
Statistical Data on Leading Manufacturers of Television Sets and Parts

	Sales 1949 ($ million)	Sales 1st Half 1950 ($ million)	Net Per Share 1949	Net Per Share 1st Half 1950	Dividends 1949	Dividends 1950 To-date	Div. Yield† %	Price Earnings Ratio‡	Recent Price	Price Range 1949-50
Admiral Corp.	$112.0	$103.2	$ 4.12	$ 4.24	$ .80[10]	$ .75	2.5%	7.7	32	39¼- 7⅜
Avco Mfg.	137.3	98.2	.54	.67	.30	.35	3.7	14.8	8	9⅛- 4⅞
Columbia Broadcasting "A"	105.3	60.2	2.44	1.85	1.40	1.20	3.9	14.4	35¼	38½-17⅛
Cornell-Dubilier Electric	13.6	19.4[1]	.86	2.15[1]	.80	.75	5.5	16.9	14½	17¼- 7
Du Mont (Allen B.) Laboratories	42.4	26.7[2]	1.49	1.16[2]	.50	.25	2.4	13.6	20⅜	27 -11
Emerson Radio & Phonograph	40.5	—	3.79	2.02[3]	1.10[10]	.80	6.1	4.7	18⅛	20¼- 5½
General Instrument	13.6	5.2[4]	[d].22	.53[4]	.70	.42	6.4	—	10⅞	13½- 6¼
International Tel. & Tel.	201.0	96.3	.72	.76	—	—	—	19.1	13¾	16 - 7½
Magnavox	6.3[5]	31.7[6]	[d]1.35[5]	2.81[6]	.25[10]	.75	1.4	—	17⅜	24¼- 5
Motorola, Inc.	81.8	70.0	6.60	6.50	.75	2.50	1.3	8.2	54¼	56¼-14
Philco Corp.	214.8	147.0	3.17	3.86	2.00	1.75	4.1	15.2	48¼	54½-22¾
Radio Corp. of America	396.1	248.7	1.58	1.40	.50	.75	2.6	11.7	18⅝	23¼- 9⅝
Raytheon Mfg.	56.3	59.5[8]	.49[7]	.49[8]	—	—	—	19.5	9⅝	13½- 4⅛
Sparks Withington	16.8	17.0[6]	.004	.49[6]	—	.10	—	—	7⅜	10¼- 3½
Stromberg-Carlson	29.5	13.8	[d]2.06	—	[7]	—	—	—	14¾	19⅜- 9
Sylvania Electric Products	102.5	61.0	1.83	1.41	1.40	1.05	5.9	12.8	23½	26⅝-17⅛
Zenith Radio	77.1	17.7[9]	5.50	1.56[9]	1.50	2.50	2.5	10.7	58⅞	70¼-20⅝

†—Based on 1949 dividends.
‡—Based on 1949 earnings.
[d]—Deficit.
[1]—9 months ended June 30, 1950.
[2]—24 weeks ended June 18, 1950.
[3]—39 weeks ended August 5, 1950.
[4]—Quarter ended May 31, 1950.
[5]—4 months ended June 30, 1949; previous fiscal year ended Febr. 28, 1949, sales $24,402,206; net profit, $2.01 per share.
[6]—Year ended June 30, 1950.
[7]—10% Stock.
[8]—Year ended May 31, 1950.
[9]—Quarter ended July 31, 1950.
[10]—Plus Stock.

Perhaps growth in television and the outlook for the near term may be better understood if expressed in terms of a single company's operations. For this purpose it may be interesting to look at representative figures of Motorola, Inc., one of the leading TV makers. First, let's see how sales have expanded.

Volume rose from $23.2 million in 1946 to $46.7 million in 1947 and to $62 million in thirteen months of 1948 (fiscal year was changed to coincide with the calendar year). Last year sales increased to $81.8 million and management officially forecast a further gain to $140 million for 1950. There is little doubt but that this goal will be surpassed by a wide margin, for volume in the first six months approximated $70 million and third quarter sales are estimated to have approached $50 million with September shipments running close to an annual rate of $240 million. For all of 1950, sales may come to more than double 1949 shipments.



That such a showing is fairly representative of major producers in the industry is indicated by official and semi-official interim statements. As a result, virtually all important companies in the industry are headed for especially satisfactory earnings this year in spite of heavier tax burdens and the threat of retroactive excess profits levies. Statistics are presented in the accompanying tabulation to suggest what may be accomplished this year, but it may be well to examine a few representative companies in greater detail. A casual survey would seem to encourage the belief that outstanding earnings improvement is in sight and generous dividend treatment would appear to be a reasonable hope.

Sharp Uptrend in Net Income

Citing Motorola again as a representative radio-television manufacturer, one may visualize a sharp uptrend in net income. Earnings in the first six months of the year came to equivalent of $6.50 a share, compared with $6.60 a share for all of 1949. Third quarter results are estimated to have exceeded anything in any previous three months and may have lifted net income for the first nine months to more than $10 a share after allowance for heavier taxes applicable to the second half of year. Unless unforeseen difficulties should be encountered in the final quarter, net profit for the year readily might reach $14-$15 a share. Such a showing would warrant the hope of consideration of another extra dividend or a stock split when directors meet for action early in December.

Manufacturers of components also have fared well. Sylvania Electric Products, for example, is in line for distinct improvement in sales and earnings. This company, which recently ventured into the field of television receivers, is one of major producers of cathode ray tubes, for which there is urgent demand. Radio tubes also are an important product and both types probably account for 40 to 45 per cent of the company's sales. Sylvania tubes are believed to comprise about one-quarter of the industry's output. With sales destined to run well above the $102.5 million of 1949, net profit is projected at record high of between $5 and $6 million, equal to more than double the $1.83 a common share reported for 1949.

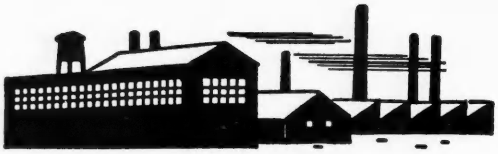
Admiral Corporation, which has risen to preeminence in television, may approach a quarter of a billion in sales this year. Shipments in the first six months approximated $103.3 million, which compared with $53.1 million in the first half of 1949 and closely approached total volume for last year of about $112 million. September quarter volume is estimated to have exceeded $65 million, suggesting that total 1950 sales may range upward of $120 million. Net profit for the first half amounted to $4.24 a share, compared with equivalent of $1.58 a share for 1949, allowing for the 100 per cent stock dividend. In view of progress registered in recent months, the management may feel disposed to consider an extra dividend at the forthcoming meeting early in November. The regular rate thus far this year has been 25 cents quarterly.

Television sales are accounting for a higher proportion of Radio Corporation's gross volume this year. Indications are that this new activity may contribute upward of 60 per cent of total receipts in 1950 compared with about 50 per cent last year. Gross for the first half rose almost 35 per cent to $248.8 million from $187.3 million in the corresponding period of 1949, while net profits came to $1.40 a share. This compared with 62 cents a share in the first six months last year and with $1.58 a share for all of 1949.

Rate increases on TV programs have contributed to larger gross revenues and are understood to have brought night telecasting to a profitable basis. Daytime programs still are being conducted at a loss, however, and the management is not optimistic about reaching a breakeven point for day-TV operations before next year at the earliest. Net profit this year is being estimated at about $2.75 a share and directors are expected to give consideration to a year-end dividend of perhaps 75 cents a share. An extra of 25 cents was paid in May.

Philco Corporation

Philco, another important TV factor, reported an increase of about 46 per cent in sales in the first six months with volume at $147 million, against $103.3 million in the corresponding period last year. Net profit amounted to $3.86 a share, compared with $1.08 in the same period (*Please turn to page* 97)



FIVE HIGH-YIELDING STOCKS with Good Prospects

By The Magazine of Wall Street Staff

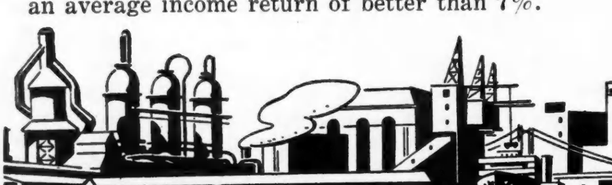
In the quest for adequate income return from common stocks, which necessarily must be high in view of today's living costs and tax rates as well as the risk factor involved in equity investments, maximum possible income stability should never be sacrificed in favor of exceptionally high yield rates as such. That at least is considered sound policy among the more conservative investors.

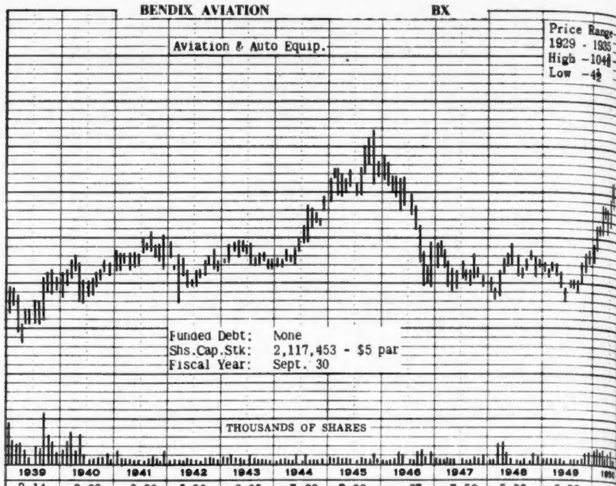
Fortunately at today's market prices, fairly high yields can still be had on quite a few good grade common stocks that enjoy a sufficient earnings cushion to promise dividend stability even under changing conditions, thereby minimizing investment hazards.

For the benefit of our readers, we have selected five such situations. Our choice has centered on representatives of industries that should continue active under any foreseeable conditions, whether leaning importantly on civilian or military production, or both. Due consideration has also been given to proper diversification.

As for the concerns selected, outstanding leaders in their respective groups have been a primary consideration. Strong competitive positions, evidence of marked operating efficiency and sound finances lend confidence in the operations of these enterprises. We have also placed emphasis on situations where current earnings cover dividends at present or indicated rates by a margin sufficient to allow for the impact of heavier taxes, or where a relatively sheltered tax position may mitigate their impact.

On this and following pages we present statistical data pertinent to the five companies we have chosen, together with brief comments as to their outlook, dividend record and the market action of their shares. With proper timing, their purchase—preferably on temporary market setbacks—should produce an average income return of better than 7%.





1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
2.14	3.09	6.30	5.90	6.95	7.22	7.32	.37	7.58	5.33	5.23	
1.50	1.75	3.75	4.00	3.00	3.00	3.00	2.00	2.00	3.00	3.50	
12.7	12.9	14.0	30.9	42.8	51.0	72.0	61.1	63.1	69.9	78.8	Wkg Cap

BENDIX AVIATION CORPORATION

BUSINESS: Company is a leading supplier of products mainly used by the aircraft, automotive, communications, marine and other special industries. In conjunction with Westinghouse Airbrake Company, airbrakes for trucks and tractors are also made.

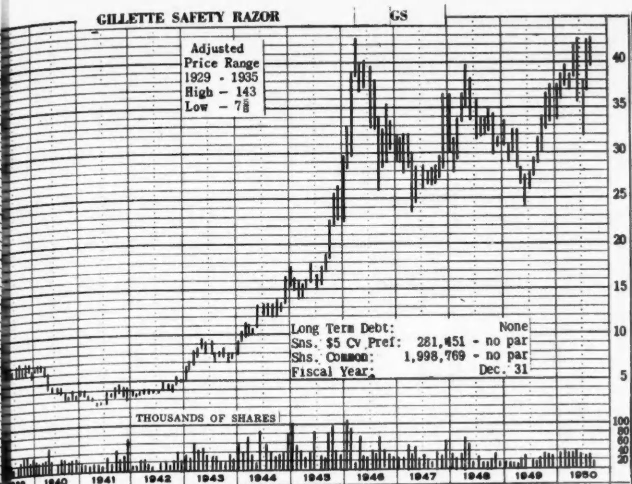
OUTLOOK: The defense program has expanded Bendix Aviation's volume potentials substantially, although annual sales in postwar have progressively established new peaks. Long experience in the manufacture of intricate devices requiring unusual engineering talent, together with adequate facilities for their production and continued research, has become a valuable asset. Of last fiscal year's sales of $182.6 million, 47% represented aviation products and the order backlog for these devices is now mounting notably, not only from the Armed Forces but from other manufacturers with military orders. All the leading automobile concerns depend on Bendix for numerous parts and their requirements should continue to sustain large volume. Bendix Aviation also is a leading factor in television and is offering a complete line to its dealers. All of these activities are only a few in which 15 different divisions share. At the end of 1949, unfilled orders amounted to $165 million and undoubtedly have climbed in recent months. Sales totalling more than $160 million for nine months of the fiscal year ending September 30, 1950, assure a new peacetime record for the full year. Earnings of $5.71 per share for nine months compare with $2.34 in the related 1949 period. On June 30, working capital of $78.8 million was at a record high and a current ratio of 3.6 reflected a strong financial status.

DIVIDENDS: Since 1939, payments have been uninterrupted. In September the quarterly rate was raised to 75 cents and a special dividend of $1 per share was declared, making disbursements of $2.75 thus far in 1950. A total of at least $3.50 should be paid by the end of the year.

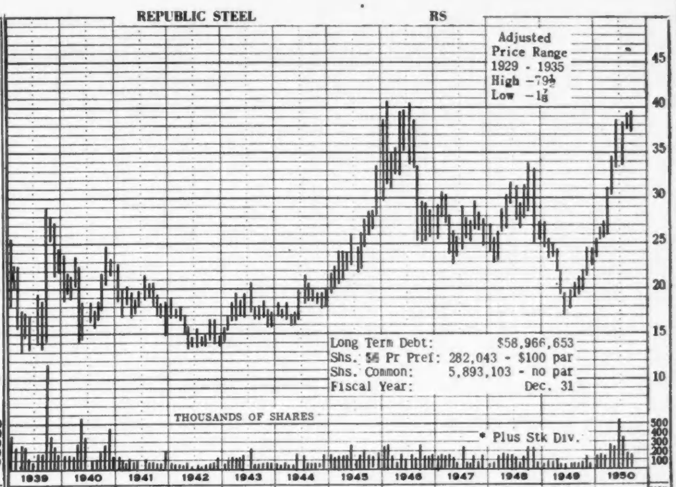
MARKET ACTION: Recent price—50 compares with a 1950 range of high—52¾, low—34½. A yield of at least 7% is indicated.

COMPARATIVE BALANCE SHEET ITEMS

	September 30 1940	June 30 1950	Change
ASSETS		(000 omitted)	
CURRENT ASSETS	$ 30,508	$108,251	+$ 77,743
Net Property	11,786	23,709	+ 11,923
Investments	2,489	2,581	+ 92
Other Assets	5,196	1,992	— 3,204
TOTAL ASSETS	$ 49,979	$136,533	+$ 86,554
LIABILITIES			
Accounts Payable	$ 11,982	$ 21,133	+$ 9,151
Accrued Taxes	5,550	8,228	+ 2,678
TOTAL CURRENT LIABILITIES	17,532	29,361	+ 11,829
Other Liabilities	38	......	— 38
Reserves	765	11,573	+ 10,808
Capital Stock	10,488	10.587	+ 99
Surplus	21,156	85,012	+ 63,856
TOTAL LIABILITIES	$ 49,979	$136,533	+$ 86,554
WORKING CAPITAL	$ 12,976	$ 78,890	+$ 65,914
CURRENT RATIO	1.7	3.6	+ 1.9



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	.80	.55	.81	.82	1.04	1.24	1.74	4.45	5.11	6.80	6.26	
DIV.	.60	.40	.45	.45	.70	.80	1.20	2.50	2.37½	3.00	3.25	
Wkg Cap $ Mil	.1	4.4	4.9	6.1	6.5	7.9	8.4	15.2	19.1	17.8	29.8	



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	1.46	3.32	3.87	2.67	1.77	1.44	1.36	2.53	5.17	7.61	7.54	
DIV.	-	.40	2.00	1.25	1.00	1.00	1.00	1.00	2.00	* 2.25	3.00	
Wkg Cap $ Mil	89.8	105.9	110.8	110.4	114.8	130.6	140.0	128.3	124.5	148.6	156.0	

GILLETTE SAFETY RAZOR COMPANY

BUSINESS: The leading manufacturer of safety razors, blades and home wave sets that carry the trade name "Toni." Production of shaving creams, shampoos, etc. also is important.

OUTLOOK: Having established an enviable earnings record for more than 43 years past, Gillette Safety Razor continues to forge ahead in line with expanding markets all over the world. Wide usage of safety razors by soldiers and sailors in both World Wars greatly extended their popularity in all areas where they were shown and discussed. Beyond much question this promotional advantage will reappear, while at the same time military orders of Gillette should rapidly expand. The spectacular success of "Toni" home wave sets and accessories has benefitted the parent company measurably in the last three years. Despite increasing competition, "Toni" products maintain their dominant position in all markets. Replacement sales of these items as well as of razor blades naturally stabilize the business of Gillette's numerous dealers everywhere, and encourage aggressive promotion of the primary sets. 3 billion Gillette razor blades alone will probably be sold in the United States this year, and the amount of steel required for them is relatively moderate. About 62% of American women have learned the merits of "Toni" wave sets. Consolidated sales of Gillette will likely top $100 million in 1950, and to judge from net earnings of $3.32 per share in the first half year, the full year showing should exceed $6 after allowing for increased income taxes.

DIVIDENDS: Payments have not lapsed in any year since 1917. Quarterly dividends of 75 cents a share have been declared in 1950, with an extra of $1 in September. In 1949 a year-end extra of $1 was declared in December.

MARKET ACTION: Recent price—44¼ compares with a 1950 high of 44⅞ and a low of 31¾. The indicated yield is about 9%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 3,452	$ 13,919	+$ 10,467
Marketable Securities	403	8,586	+ 8,183
Receivables, Net	696	6,604	+ 5,908
Inventories	1,516	11,617	+ 10,101
Other Current Assets	6	287	+ 281
TOTAL CURRENT ASSETS	6,073	41,013	+ 34,940
Net Property	2,052	10,778	+ 8,726
Net Foreign Assets	7,631	1,269	— 6,362
Other Assets	10,274	1,728	— 8,546
TOTAL ASSETS	$ 26,030	$ 54,788	+$ 28,758
LIABILITIES			
Accounts Payable	$ 427	$ 2,406	+$ 1,979
Accruals	485	6,658	+ 6,173
Accrued Taxes	728	10,091	+ 9,363
TOTAL LIABILITIES	1,640	19,155	+ 17,515
Reserves	.....	8,525	+ 8,525
Other Liabilities	.....	330	+ 330
Preferred Stock	2,250	2,111	— 139
Common Stock	14,990[1]	1,998[1]	— 12,992[1]
Surplus	7,150	22,669	+ 15,519
TOTAL LIABILITIES	$ 26,030	$ 54,788	+$ 28,758
WORKING CAPITAL	$ 4,433	$ 21,858	+$ 17,425
CURRENT RATIO	3.7	2.1	— 1.6

[1]—Par value was reduced in 1941 from $7.50 to $1.00 per share.

REPUBLIC STEEL CORPORATION

BUSINESS: The country's third largest steel producer, with an annual 8.7 million ton ingot capacity. Production of alloys and light steel is a major specialty, and output of sheet and strip is substantial.

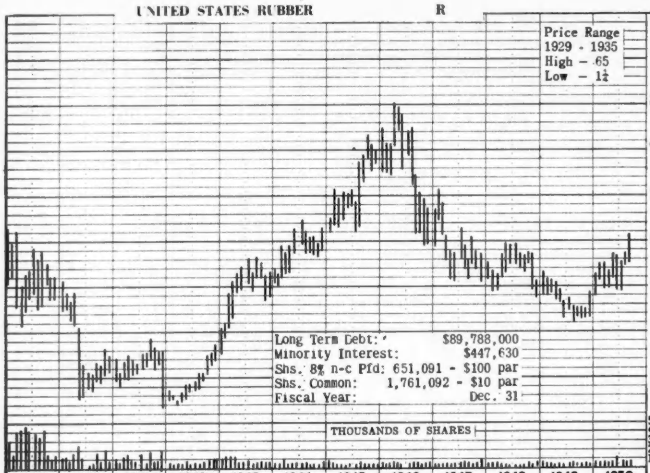
OUTLOOK: Large scale expansion during the last war, followed by purchase of a $100 million Government owned plant for $25 million in 1947, has put Republic Steel in an excellent position to capture a good share of the promising steel markets that are showing record activity due to the business boom and the defense program. Operations have been well integrated in recent years, and capacity for producing pig iron is so large that much tonnage is sold to other concerns. Republic also has such ample melting capacity that it should benefit by receipt of much conversion business that is normally quite profitable. Forward planning induced the company to increase its ore supplies last year by obtaining control of large mines in Liberia, but recently much broader steps were taken jointly with Armco Steel Corporation to acquire a 1.5 billion ton deposit of taconite ore in the Mesabi Range. This material contains about 60% iron. By the end of 1950, Republic Steel's bonded debt should be reduced to a very moderate level of $54 million, close to the all-time low of 1934. Working capital of $156 million at the end of 1949 was at record high. With the prospect of continued capacity operations in the foreseeable future, net earnings should remain high despite increased taxes. After tax accruals on a 45% basis in the first half of 1950, $6.25 a share was earned in that period. Allowances for accelerated depreciation could ease the impact of EPT next year.

DIVIDENDS: Payments have been uninterrupted since 1939, rising from $1 per share in 1946 to $3 in 1949, the latter including a $1.25 year-end extra. Through October in the current year a total of $2 a share was paid, leaving room for another liberal extra.

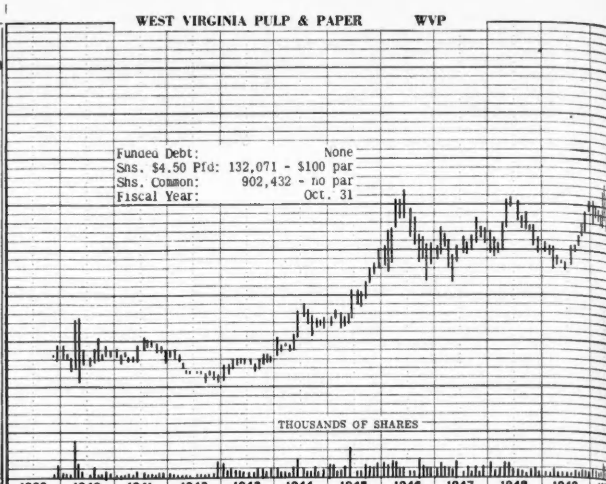
MARKET ACTION: Recent price—40 compares with a 1950 range of high—40⅛, low—23⅛. A yield of at least 7.5% seems assured.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 30,432	$ 67,175	+$ 36,743
Marketable Securities	.....	6,985	+ 6,985
Receivables, Net	31,943	41,000	+ 9,057
Inventories	78,889	106,758	+ 27,869
Other Current Assets	501	240	— 261
TOTAL CURRENT ASSETS	141,765	222,158	+ 80,393
Net Property	240,355	247,997	+ 7,642
Investments	8,925	11,941	+ 3,016
Other Assets	14,272	13,997	— 275
TOTAL ASSETS	$405,317	$496,093	+$ 90,776
LIABILITIES			
Accounts Payable	$ 17,071	$ 33,694	+$ 16,623
Accruals	6,823	5,607	— 1,216
Accrued Taxes	11,881	26,770	+ 14,889
TOTAL LIABILITIES	35,775	66,071	+ 30,296
Funded Debt	95,829	58,967	— 36,862
Reserves	20,266	16,114	— 4,152
Other Liabilities	4,775	15	— 4,760
Preferred Stock	37,693	28,204	— 9,489
Common Stock	132,520	138,189	+ 5,669
Surplus	78,459	188,533	+ 110,074
TOTAL LIABILITIES	$405,317	$496,093	+$ 90,776
WORKING CAPITAL	$105,990	$156,087	+$ 50,097
CURRENT RATIO	3.9	3.3	— .6



1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	
3.12	3.58	4.86	1.82	5.82	5.31	4.44	10.23	9.39	8.49	5.62		EARN.
-	-	2.00	-	1.00	2.00	2.00	3.00	4.00	5.00	3.00		DIV.
74.5	82.5	88.3	103.1	108.8	93.7	110.0	118.4	170.1	172.0	167.9	Wkg Cap $ Mil	



1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
.18	3.03	3.70	1.83	1.59	1.18	1.63	4.93	11.40	11.33	9.31
.20	1.00	1.80	1.25	1.25	1.00	1.00	2.40	3.00	4.00	3.00
16.6	16.3	16.7	19.1	20.6	15.1	15.3	19.8	23.6	24.8	28.2

U. S. RUBBER COMPANY

BUSINESS: Company is one of the world's largest producers of tires, tubes, mechanical rubber goods, rubber footwear, latex compounds and various chemical products. Large rubber plantations are owned in the East Indies.

OUTLOOK: Increased military spending for tires and various rubber equipment, combined with continued strong demand for all kinds of rubber products from civilian sources, strengthens the volume potentials of this concern for an indefinite period. Since U. S. Rubber has plowed back more than $102 million in profits during postwar, the expansion and modernization attained on this scale places the company in a record position to meet a prospective heavy demand. Present capacity is about 31% greater than ten years ago and operations are conducted far more efficiently. Available supplies of synthetic rubber and a growing stockpile of the natural material assure ample supplies needed to operate at a high level. Net sales of $291 million for the first half of 1950 were 13% ahead of a year ago, and although the company operated with a net profit margin of only 3% on sales, net earnings rose to $3.55 per share from $2.30 a year earlier. Latest results were after an allowance of $1.5 million for contingencies. The large amount of invested capital may alleviate the burden of EPT when the tax becomes effective. Net working capital of about $173 million seems adequate for all current needs, as indicated by a current ratio of 3.3 at the end of last June.

DIVIDENDS: Payments have been made intermittently since 1895, but have been regular and generally rising for the past seven years. A 25 cents extra supplemented the 75 cents quarterly dividend in September, indicating a total of at least $3.25 for 1950.

MARKET ACTION: Recent price—51⅝ compared with a 1950 high of 52⅜ and a low of 37½. The indicated yield is 6.2%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	June 30 1950	Change
		(000 omitted)	
ASSETS			
Cash & Market. Secur.	$ 20,546	$ 44,777	+$ 24,231
Receivables, Net	36,108	84,848	+ 48,740
Inventories	64,454	116,448	+ 51,994
TOTAL CURRENT ASSETS	121,108	246,073	+ 124,965
Net Property	69,099	90,643	+ 21,544
Investments	1,858	4,548	+ 2,690
Other Assets	741	2,991	+ 2,250
TOTAL ASSETS	$192,806	$344,255	+$151,449
LIABILITIES			
CURRENT LIABILITIES	$ 38,563	$ 73,062	+$ 34,499
Reserves	5,706	9,447	+ 3,741
Other Liabilities	401	493	+ 92
Funded Debt	41,067	88,259	+ 47,192
Preferred Stock	65,109	65,109	....
Common Stock	17,360	17,611	+ 251
Surplus	24,600	90,274	+ 65,674
TOTAL LIABILITIES	$192,806	$344,255	+$151,449
WORKING CAPITAL	$ 82,545	$173,011	+$ 90,466
CURRENT RATIO	3.1	3.3	+ .2

WEST VIRGINIA PULP AND PAPER COMPANY

BUSINESS: This is a leading producer of white papers of almost every kind, besides kraft papers used for bags, wrappings, paper board, etc. Sales of pulp to outsiders contribute to revenues, as also do chemicals.

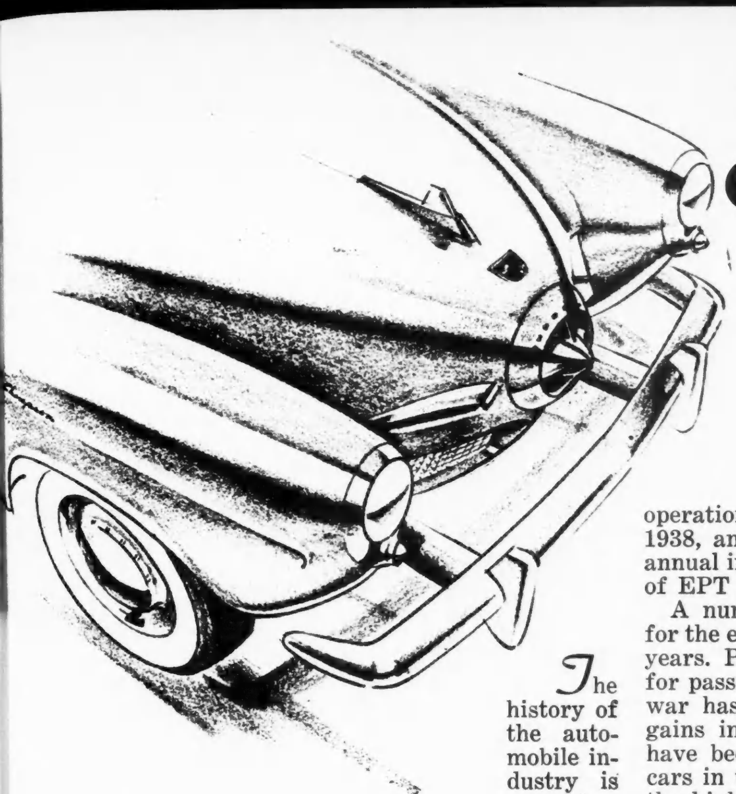
OUTLOOK: The long and unusually successful record of this outstanding concern engenders confidence in its future operations. Even prior to the last war, it was generally conceded that the company was one of the lowest cost operators in the industry, and due to expenditures close to $40 million for postwar modernization and expansion, this reputation has gained strength. Although 400,000 acres of timber land are owned, most of the company's wood supplies are purchased from a number of sources, doubly assuring adequate materials for pulp production at all times. Continued high level industrial activity, combined with rapidly expanding paper usage, should enable West Virginia to maintain large volume for quite a while ahead. Sales for nine months of the fiscal year ending October 31, 1950, amounted to almost $70 million compared with $63.6 million a year earlier, and profit margins are being aided by firm prices as an offset to rising wage costs. Net earnings in the period were $8.48 per share. Freedom from bonded debt should promote earnings stability in recessive periods to some extent, and the company enjoys a relatively sheltered tax position. Average earnings of about $10.60 per share for the last three years reflect improved operating efficiency and strong demand for the company's specialties. Working capital of $25.5 million and a current ratio of 6.2 attests to financial strength and liquidity.

DIVIDENDS: Stockholders have received payments without a break since 1899. A year-end extra of $3 per share makes a total for fiscal 1950 of $5, including quarterly distributions of 50 cents a share.

MARKET ACTION: Recent price—62⅜ compares with a 1950 range of high—68½, low—44¼. The current yield is 8%.

COMPARATIVE BALANCE SHEET ITEMS

	October 31 1940	July 31 1950	Change
		(000 omitted)	
ASSETS			
Cash	$ 6,391	$ 12,506	+$ 6,115
Marketable Securities	249	5,141	+ 4,892
Receivables, Net	4,126	3,287	— 839
Inventories	8,144	9,494	+ 1,350
TOTAL CURRENT ASSETS	18,910	30,428	+ 11,518
Net Property	38,013	58,721	+ 20,708
Investments	3,557	699	— 2,858
Other Assets	988	888	— 100
TOTAL ASSETS	$ 61,468	$ 90,736	+$ 29,268
LIABILITIES			
Accounts Payable	$ 1,630	$ 4,707	+$ 3,077
Accruals	234	148	— 86
Accrued Taxes	712	......	— 712
TOTAL CURRENT LIABILITIES	2,576	4,855	+ 2,279
Funded Debt	7,727	......	— 7,727
Reserves	25		— 25
Preferred Stock	15,583	13,197	— 2,386
Common Stock	27,831	45,000	+ 17,169
Surplus	7,726	27,684	+ 19,958
TOTAL LIABILITIES	$ 61,468	$ 90,736	+$ 29,268
WORKING CAPITAL	$ 16,334	$ 25,573	+$ 9,239
CURRENT RATIO	7.3	6.2	— 1.1



STUDEBAKER CORPORATION

—A Study of a Promising Runner-Up

By H. S. COFFIN

The history of the automobile industry is so replete with casualties that ended corporate activities for dozens of concerns, leading to a major dominance of the field by General Motors, Ford and Chrysler, that the vitality displayed by Studebaker Corporation in holding fourth place is particularly noteworthy. Among the relatively few remaining independents, the record of Studebaker certainly has elements of special interest to investors.

If "experience is the best teacher", Studebaker's 98 year old business has taught its progressive managements some lessons that indubitably account for its present vigor and relative strength. Manufacture of vehicles from 1852 to the turn of the century formed a sound base from which to venture into automotive production—a new industry just then being born. As an automobile concern, Studebaker from the start had the advantage of established reputation, a ready-made dealer organization and engineering experience, factors that had to be entirely created by most of the numerous competitors which crowded the early automotive field.

When the economic crash in the early 1930s reduced total production of passenger cars and trucks to a relative trickle of 1.1 million units from 4.7 million in 1929, volume of Studebaker receded so abruptly below the break-even point that the company was forced into receivership. Reflecting confidence in the basic soundness of the business under normal economic conditions, however, a complete reorganization and recapitalization was effected, additional working capital was supplied and Studebaker got off to a new start by 1935. The dynamic growth of the business since then has been clearly shown by a rise in annual sales from around $40 million to a peak of $473 million in 1949, with a sharp further gain indicated for 1950. While net earnings have varied over the fifteen-year period, operations have been consistently profitable since 1938, and 1950 may produce the fourth successive annual increase in net income, unless the application of EPT prevents.

A number of factors have combined to account for the encouraging progress of Studebaker in recent years. Primarily, of course, the sustained demand for passenger cars of all well known makes in postwar has strongly supported the company's record gains in annual volume. But of equal importance have been the policy to concentrate production on cars in the moderate to low price range, backed by the highest quality of engineering and design. The same applies to output of trucks, of which five models are offered, ranging in capacity from ½ ton to 2½ tons. While Studebaker could not hope to come anywhere near the mass sales of the "Big Three", a large number of loyal customers and a steady increase in newcomers has enabled the company to operate commensurately with its expanding stature. As a result of these circumstances, Studebaker's gains have outstripped those of the entire industry of late.

At the close of World War II, the management of Studebaker was in a position to profit from the experience gained in record production of military trucks and related vehicles. Early in the war, final assembly lines had been geared to production of just about one passenger car per minute, but this was possible only on a one shift basis because other departments had to operate with two or three shifts in order to supply necessary parts. Foundry operations had been closed down during the war, causing heavy dependence on outside suppliers and increased costs. In reconversion to peacetime business, the company foresaw many ways by which operating efficiency could be greatly improved, and output could be expanded to meet the prospective big deferred demand.

Under the able leadership of Paul G. Hoffman, then president of Studebaker Corporation and subsequently head of ECA, postwar expansion and modernization plans were carefully formulated that involved expenditures of about $16 million. Facilities were to be increased enough to permit production of 300,000 cars and trucks annually with utmost efficiency, and to triple output of commercial vehicles. Batteries of fast semi-automatic machinery were envisaged, feeding a 1000-foot assembly line with a continuous conveyor system. New equipment

would be installed in the foundries and ample new space provided to reach all output goals. Mr. Hoffman at the time averred that the new program should give Studebaker an efficiency second to none in the industry.

Substantial Production Gain

How successfully the program was carried out is shown by the fact that in 1949, Studebaker sold 304,994 passenger cars and trucks. However, the anticipated cost of plant improvements was much in excess of the original estimate. According to the December 31, 1949, balance sheet, the company's gross property account had expanded by about $27 million in the 1946-49 period, and after allowing for depreciation the rise was approximately $19.6 million. Both of these figures understate additions to plant account in relation to cost and space, because they include acquisition of a government owned facility in 1948 for about $3.6 million that formerly cost several times this amount to construct. All said, the company's operations now benefit from improvements that really involved more than twice the initial construction costs envisaged, but in the process, Studebaker's capacity has been enlarged to an estimated annual potential of 350,000 cars and trucks, leaving room for further increased output in the near term if demand warrants.

With materials in better supply last year and demand continuing strong, Studebaker, as previously stated, fared better than the industry as a whole, with its production up 30% from 1948 against an industry gain of 18%. Considering the frequent handicap of strikes in supplier plants, this showing was significant. Improved sales of passenger cars entirely accounted for the 1949 units gain, the percentage in this division rising to 43.9% compared with 30% for all passenger cars manufacturers. In actual units, Studebaker produced 239,900 passenger cars last year versus 166,755 in 1948, but output of trucks declined by 4.4% to 64,971, much more moderately than the drop of 16.7% experienced by the industry as a whole. A sharp recession in demand for trucks, especially for heavy duty units, in the first half of last year accounted for the decline in output, but recovery in the final six months of 1949 was a substantial offset.

As to 1950 production, lastest figures indicate that through September 30, the total number of passenger cars and trucks manufactured by Studebaker was 257,216, or at an annual rate of more than 340,000. Seasonal factors normally would point to somewhat reduced demand in the final quarter, but under present conditions no great change is expected despite stiffened credit curbs. The company, furthermore, has recently received a military order for 4000 2½ ton trucks, involving $23 million, that should help offset any shrinkage in civilian demand, hence the outlook for continued high level production is bright, except for uncertainties over steel allocations.

Plant Facilities

Just prior to the Korean outbreak, Studebaker announced acquisition of a 165-acre tract near Brunswick, N. J., on which a $5.5 million assembly plant would be built with a capacity of 85,000 cars. In view of prospective shortage of construction materials, though, these new facilities will not now be built until such time as more favorable conditions prevail. Studebaker now owns large assembly plants in Canada and in California, and evidently has learned that decentralization of this kind pays off through improved service to dealers as well as by manufacturing economies. When well packed automobile components and parts, rather than completed cars, are shipped over long distances, considerable savings in transportation costs are effected, mass production of the essentials in a central location widens profit margins and greater operating efficiency can be attained in a moderate sized separate assembly plant than in a huge centralized operation. For these and other reasons, Studebaker will indubitably reactivate its plans to construct the New Jersey facilities at the appropriate time.

This seems more than likely because car sales in

Long Term Operating and Earnings Record

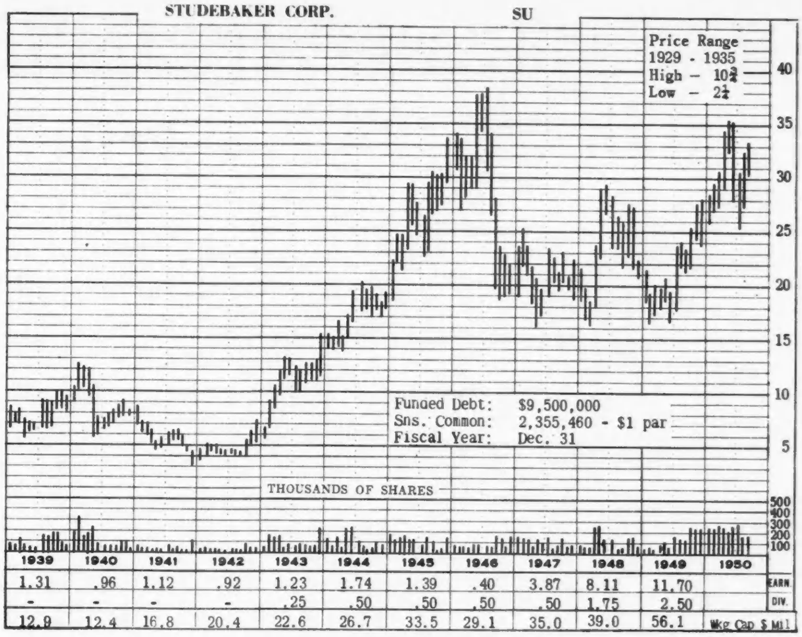
	Net Sales ——Millions——	Operating Income	Operating Margin %	Income Taxes ——Millions——	Net Income	Net Profit Margin %	Net Per Share	Div Per Share	Percent Earned on Invested Capital %	Price Range 1940-50 High Low
1950 (First Half)	$256.0	$ —	—	$ —	$14.4	5.6%	$ 6.12	$2.10[2]	—	35⅝-25½
1949	473.1	45.7	9.6%	17.2	27.5	5.8	11.70	2.50	32.3%	28 -16⅛
1948	383.6	33.8	8.8	13.2	19.1	4.9	8.12	1.75	30.0	29¼-16⅛
1947	267.9	16.3	6.9	5.8	9.1	3.4	3.87	.50	19.0	25⅛-16
1946	141.5	[d]7.7	—	1.4[1]	.9	.6	.40	.50	2.3	38½-18⅛
1945	212.8	5.0	2.3	.9[1]	3.2	1.5	1.39	.50	8.0	33¾-18½
1944	415.7	21.4	5.1	15.6[1]	4.0	.9	1.74	.50	11.4	20¼-13⅞
1943	364.1	17.7	4.8	14.2[1]	2.8	.7	1.23	.23	8.9	15⅛- 5⅝
1942	221.4	8.4	3.8	5.3[1]	2.0	.9	.92	—	7.2	6¼- 3¾
1941	115.7	6.5	5.6	3.4	2.4	2.1	1.12	—	9.4	8⅝- 3⅜
1940	84.1	3.1	3.7	.6	2.1	2.5	.96	—	8.9	12⅝- 5¾
10 Year Average 1940-49	$267.9	$16.5	4.5%	$ 7.7	$ 7.3	2.3%	$ 3.14	$ .64	13.7%	38½- 3⅜

[1]—Before carry-back or post-war tax credits.

[2]—Paid to Sept. 29, 1950.

[d]—Deficit.

markets adjacent to the northern Atlantic seaboard are larger than in any other section of the country, although the distance from Studebaker's main plants in South Bend, Indiana, piles up transportation costs. Ready delivery of cars would also aid the company in further building up its dealer organization, already the strongest and most effective in Studebaker's long experience. It has been largely due to the aggressive support of dealers that more than 1.3 million Studebaker passenger cars and trucks are now in use in the United States, more than twice the number on the roads ten years ago, although in the same span, the number of all makes has risen only about half as rapidly, or by about 50%.



The rapid increase in the use of Studebaker vehicles promotes confidence in rising sales of parts and accessories, not alone promising to stabilize annual volume well above prewar experience, but to some extent earnings as well, since profit margins on these items are normally quite a lot wider than on cars. Additionally, sales of accessories and replacement parts importantly fortify operations of dealers in recessive periods, and help maintain a strong and expanding dealer system.

On appended tables we present comparative balance sheet items of Studebaker Corporation as of December 31, 1940 and June 30, 1950, as well as operating and earnings data covering the last ten years.

Late in 1946, the company privately sold $15 million of 3½% sinking fund debentures to finance the postwar improvement program, but as of June 30, 1950, $5.5 million of this term debt had been retired. Additionally an issue of 200,000 shares of no par preferred stock was authorized, but a comfortable financial position has made it unnecessary to sell any of this senior security to date. 2,355,460 shares of common stock of an authorized issue of 5 million shares constitute the present equity capital.

Working Capital Position

In studying the latest balance sheet, it will be noted that working capital of $63.8 million on June 30 compared impressively with only $12.4 million on December 31, 1940. Even so, a ratio of 2.1 for current assets relative to current liabilities might indicate not much more than a normal position. A marked rise in inventories as the business expanded absorbed considerable working capital, but a sevenfold gain in holdings of cash and marketable securities to a recent total of $75 million, compared with total current liabilities of $56.4 million, attests to an exceptional liquidity.

By complete retention of annual earnings prior to 1943 and by ultra-conservative dividend policies since then, the management has not only built up marked financial strength but at the same time retired a substantial amount of term debt. Current book value of $40.89 for the common stock compares with $10.51 in 1940.

From an operating angle, the postwar progress of Studebaker has been quite impressive. Starting from the reconversion year low of $141.5 million. dollars sales have consistently risen to an all-time peak of $473.1 million in 1949, and in the first half of 1950 pushed ahead at an increased pace. Despite a steady advance in labor costs, larger volume combined with improved operating efficiency permitted a continuous widening of operating margins to a record of 9.6% last year. This in turn brought a marked uptrend in net earnings despite a strong rise in income taxes, net profits of $11.70 per share in 1949 comparing with (*Please turn to page* 93)

Comparative Balance Sheet Items

ASSETS	December 31 1940	June 30 1950 (000 omitted)	Change
Cash	$ 10,634	$ 44,466	+$ 33,832
Marketable Securities	——	30,781	+ 30,781
Receivables, Net	1,811	8,439	+ 6,628
Inventories	7,972	34,093	+ 26,121
Other Current Assets	,398	2,587	+ 2,189
TOTAL CURRENT ASSETS	20,815	120,366	+ 99,551
Plant and Equipment	23,071	59,539	+ 36,468
Less Depreciation	6,404	18,459	+ 12,055
Net Property	16,667	41,080	+ 24,413
Other Assets	1,056	1,048	— ,8
TOTAL ASSETS	$ 38,538	$162,494	+$123,956
LIABILITIES			
Accounts Payable	$ 4,748	$ 28,987	+$ 24,239
Accruals	——	24,897	+ 24,897
Accrued Taxes	1,764	,666	— 1,098
Other Current Liabilities	1,882	1,945	+ ,63
TOTAL CURRENT LIABILITIES	8,394	56,495	+ 48,101
Long Term Debt	5,841	9,500	+ 3,659
Other Liabilities	,494	——	— ,494
Common Stock	2,273	2,355	+ ,82
Surplus	21,536	94,144	+ 72,608
TOTAL LIABILITIES	$ 38,538	$162,494	+$123,956
WORKING CAPITAL	$ 12,421	$ 63,871	+$ 51,450
CURRENT RATIO	2,4	2,1	— ,3

Has The MOVIE Industry Turned The Corner?

Photo by Warner Bros.

By C. F. MORGAN

The deterioration in the motion picture industry for more than three years at last shows signs of a turn for the better. Indeed, with numerous handicaps now in process of abatement and several constructive factors exerting influence, a good deal of confidence has been reestablished over the medium term outlook for Hollywood producers and the picture houses. In reflection of these circumstances, a number of movie shares have exhibited considerable strength in recent weeks.

While it may have been no more than a coincidence, attendance at picture houses began to pick up throughout the country shortly after the Korean outbreak. While this to some extent may be attributable to a natural desire to see films stemming from the war front, evidence is accumulating that other and more permanent factors have stimulated the increased attendance.

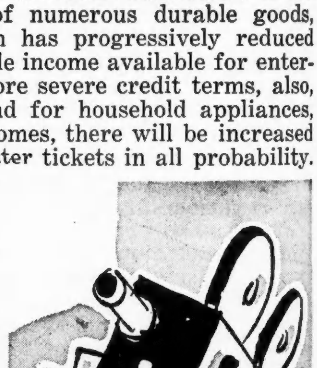
For one, no form of popular amusement so thoroughly ingrained in modern life as the picture shows could indefinitely shrink in appeal, hence the 30% progressive drop in ticket sales from 1946 to the middle of 1950 could well have reached its nadir. The recent uptrend seems soundly based, with a good prospect that it may continue in the final quarter, and quite likely through 1951.

In support of this surmise, it should be realized that personal income has been steadily rising and should continue to advance for some time to come. Surveys show that the encroachment of television upon movie attendance has been a good deal less effective than commonly supposed, although uncertainties still persist in the matter. Statistics recently assembled at least indicate that the downtrend in ticket sales varied little between areas where TV broadcasts could be received and others where they are not yet available. As was the case when radio was first considered certain to provide irresistible competition to motion pictures, when the novelty of home entertainment wears off, it appears that the get-away-from-home attraction of the picture houses, combined with the broad scope of their presentations, carries lasting appeal.

Even when color pictures become available for TV before long, they will have to be adapted for relatively short programs because of their high cost, and the restricted screen area of TV will necessarily create handicaps compared with the full scale showings by the motion picture houses. Through experience, it is becoming clear that TV is more nearly an ally than a competitor of picture house films, because of the increasing use of television for theater showings and the proven efficiency of TV as a medium for promoting attendance at the shows.

Additionally, picture producers will assuredly expand their revenues through rentals of films to television stations, specially designed to avoid competition with currently presented theater shows that include the most popular actors. In other words, the most notable actors will be used in both instances, but in different pictures or with careful timing.

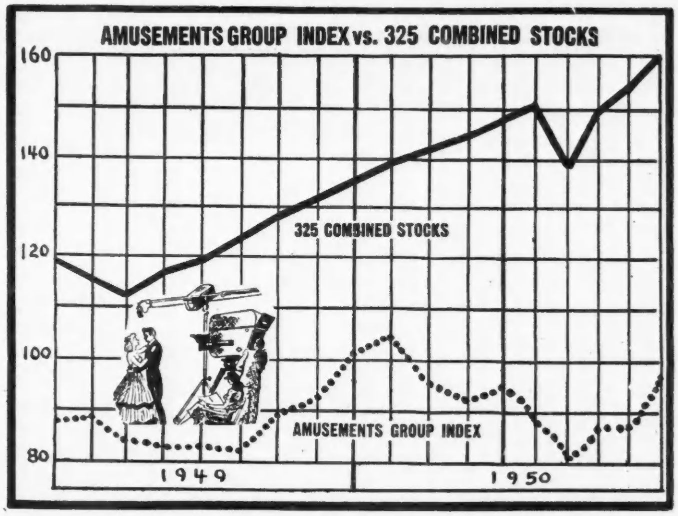
Another factor that will soon carry less weight as an adverse influence on movie attendance is the prospective shortage of numerous durable goods, the purchase of which has progressively reduced the portion of disposable income available for entertainment. Now that more severe credit terms, also, will likely curb demand for household appliances, automobiles and new homes, there will be increased amounts spent for theater tickets in all probability.



Further encouragement is offered to Hollywood in hoping for enlarged film revenues by the historic rise in theater attendance that has accompanied periods of war or of major uncertainties such as those engendered by the vast Defense Program. The feeling of need for greater relaxation at such times may be satisfied in numerous ways, but experience

has shown the picture houses to be a predominant medium.

The marked economic recovery of numerous foreign nations, often attended by a rise in local theater attendance in a period when dollar balances are notably accumulating, has begun to brighten the foreign volume potentials of Hollywood producers. American films have become increasingly popular throughout the world and overseas rentals have now passed the $100 million mark annually.



Foreign Business

Hollywood pictures presently account for about 70% of the total shown in worldwide theaters. While currency devaluations and blocked funds are still adverse factors in many foreign countries, these handicaps are becoming much less burdensome than formerly. In Italy, France and other western European countries, American film producers have used their blocked funds very effectively by using them for local pictures, and by various methods have been able to channel an increasing portion of profits from abroad to their home treasuries.

After months of negotiations, the British Board of Trade has recently announced more favorable terms on which film earnings from British showings can be converted into dollars. As of October 1, American producers can not only continue to take home in dollars $17 million of their annual earnings from British business, but also an amount equal to 23% of what they spend for producing films in the British Isles. Since American companies of late have spent about $6 million per year on their English productions, by the new arrangement an additional $1.38 million dollars may be counted on, not to mention a further amount representing 50% of the amount to be paid English producers for distribution of their own pictures in the United States.

By these mutual agreements, it seems rather likely that currently blocked funds totaling about $50 million may be gradually released by Hollywood cencerns. Since Britain is by far the largest customer in the foreign field, a solution of this long endured exchange problem would substantially improve the operating potentials of American film producers.

From an operating angle, considerable progress has been made by the leading Hollywood studios to lower their production costs by a number of methods, some of which have begun to bear fruit in the current year. Savings, for example, have been attained by reducing the number of actors in a given picture, shortening of shooting schedules and by contracting for film stars on a per picture basis rather than on yearly terms. Less than half as many actors now hold contracts as did so three years ago, and the number of stage hands employees has also been reduced.

Under new policies, the number of new pictures produced each year has been stepped up in order to spread overhead expenses, although total output of films is still far short of the years when the industry was booming. Early in the current year, Hollywood had turned out 103 new pictures compared with only 83 in the related period of the year before, partly in hopes that the increased number will attract more theater goers.

Of more importance to (*Please turn to page* 95)

Statistical Summary of Leading Motion Picture Companies

	Gross Revenue ($ million) 1949	Gross Revenue ($ million) 1st Half 1950	Net Per Share 1949	Net Per Share 1st Half 1950	Div. 1949	Div. Yield† %	Price-Earnings Ratio‡	Recent Price	Price Range 1949-50
Columbia Pictures	$ 53.3	$ 51.4[2]	$1.08[1]	$2.58[2]	$ .50	3.4%	13.4	14½	14⅝- 7¾
Loew's, Inc.	179.3	135.0[3]	1.31	1.17[3]	1.50	8.2	14.0	18⅜	18¾-14½
Paramount Pictures Corp.	80.1	39.2	1.00	1.07	.50	2.3	22.0	22	22¼-17½
Radio-Keith-Orpheum	106.2	47.1	.44	.11	.45	5.4	18.7	8¼	9⅝- 6⅛
Republic Pictures	28.0	15.7[4]	.05	.28[4]	—	—	85.0	4¼	5⅜- 2¼
Technicolor	20.1	—	2.56	1.07	2.00	9.2	8.4	21¾	26¾-10⅝
Twentieth Century-Fox	169.5	78.5	4.28	1.59	2.00	8.0	5.8	25	25½-18⅛
Universal Pictures	56.7	25.2[4]	[d]1.45	.15[4]	—	—	—	11¼	12⅜- 7
United Paramount Theatres	92.1	50.3	5.39	1.74	—	—	4.0	21¾	26 -15⅛
Warner Bros.	140.8	100.8[5]	1.43	1.00[5]	1.00	7.4	9.4	13½	16¾- 9⅝

†—Based on 1949 dividends.
‡—Based on 1949 earnings.
[d]—Deficit.
[1]—Year ended June 30, 1949.
[2]—Year ended June 30, 1950.
[3]—40 weeks ended June 8, 1950.
[4]—26 weeks ended April 29, 1950.
[5]—9 months May 27, 1950.

FOR PROFIT AND INCOME

Dow Theory

Dow Theory "confirmations" of bull or bear trends in the stock market have usually come too late to be of practical use, and often have proved costly to those who followed the "signals". Of course, the system has worked best — or least poorly, to be more accurate — in very long bull or bear markets: such as 1924-1929 or 1929-1932. Any technical method of identifying the major trend will naturally work best in the longest cycles of advance or decline. However, Dow Theory did not "confirm" even the great 1942-1946 bull market, which started at 92.92 in April, 1942, until June, 1944, at the level of 145.86. The next major sell signal came in September, 1946, at 178.63, although the top was 212.50, made the preceding spring. So Dow Theory caught a rise of 32.77 points out of a total rise of 119.58 points. In 1948 there was a buy signal in May at 188.60, a sell in November at 173.94. Thereafter, there was no buy signal in the broad 1949-1950 rise until Oct. 2 at 228.94, at which point the industrial average topped its June high, "confirming" the earlier zig-zag upward pattern in the rail average.

Recapitulate

To foot up the record cited, if you bought and sold on Dow Theory confirmations, you would have bought at 145.86, sold at 178.63, bought at 188.60, sold at 173.94, and bought at 228.94—for a total loss of 46.86 points. During the period reviewed there were three Dow-Theory bull markets, for a total rise of 219.35 points. After the 1948 buy signal at 188.60, the rise continued for four weeks but amounted only to an additional 4.56 points, topping at 193.16. Of course, serious Dow-Theory addicts will reply that you have to anticipate confirmations. But if you try to anticipate the "signals" under any technical system you are using judgment, rather than relying on the system. So far as previous experience with Dow Theory goes, the further rise from the recent confirmation point might be small and short, or large and protracted. In other words, it is anybody's guess.

Dividends

Total dividends this year will set a new peak, probably surpassing the 1949 total by 5% to 7%. However, the year-end extras of November-December may foot up to just about what they did in 1949; and, in any event, will represent a smaller percentage of earnings. Corporations do not know what their tax liability is going to be for 1951. They may have an extra bill to pay out of 1950 profits, with an EPT applying retroactively to the fourth quarter or even the second half. Under the new law, they will have to pay considerably more of total taxes on 1950 profits within the first half of 1951 than formerly, when payments could be made in equal quarterly installments. Finally, operating costs are tending to rise, requiring

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
Eagle-Picher Co.	August 31 Quarter	$1.27	$ .90
Southern Pacific Transp. System	8 months August 31	7.24	4.77
Avco Manufacturing Corp.	9 months August 31	1.08	.35
Continental Motors Corp.	9 months July 31	.76	.52
Mueller Brass	August 31 Quarter	2.11	.08
Northern Pacific Ry.	8 months August 31	1.34	.66
Robbins Mills, Inc.	August 31 Quarter	1.98	.93
National Department Stores	6 months July 31	.32	.16
Hooker Electrochemical	August 31 Quarter	1.30	.54
Southern Railway	8 months August 31	6.76	2.99

more working capital than pre-Korea for any given volume of business. For all these reasons, the general tendency is going to be moderately conservative in the matter of year-end dividends.

National Lead

Judging by first half results, 1950 earnings of National Lead are bound to be far above the previous peak of $3.88 a share in 1949. A good guess might be anywhere between $5.50 and $7.50, depending on whether there is a retroactive EPT and for what period, and depending also on what the company wishes to "show". Concerning the latter, there is a good deal of flexibility in reserve policy, althought it is quite conservative as a rule. The company has begun to "go to town" on some new products developed within recent years, including the metal titanium. This explains the stock's recent sharp rise to a new all-time high of 53. Although it cannot be closely figured, the EPT liability appears to be fairly stiff. Earnings might be limited to the general vicinity of $4-$5 a share "for the duration". Actually, anything like that would be excellent from the point of view of long-pull owners of the stock, who never saw earnings above $3 a share before 1947, and would justify more than the $2.25 in dividends paid in 1949. This is a good stock to own, but not to reach for on pronounced strength.

Phelps Dodge

This is a low-cost copper producer, second only to Kennecott in domestic output. The EPT position is good, due to the special depletion allowance for tax purposes. Were present copper prices frozen, or even rolled back a couple of cents a pound, earnings would still be juicy for the foreseeable future. This year they should be fairly close to 1948's record $10.30 a share. Finances are strong. The stock is on a regular $4 annual dividend basis, yielding nearly 6.8% return at the price of 59 prevailing at this writing. A 50-cent year-end extra ought to be a minimum, making current yield over 7.6%. This issue is as good an inflation-hedge as any stock can be — which is only partial; and is moderately priced on earnings and dividends. However, at the present level and at the 1950 high to date of 60¼, it is not yet definitely through supply levels at which advances have previously topped out. For example, the 1948 high was 59 and 1937 high was 59⅞. The stock importantly bettered its recent 1950 high only in 1929, when it sold as high as 93¾ on earnings of $4.80 a share and dividends of $2.75.

Deere

One of the best-situated farm machinery makers, Deere netted $10.07 a share for 9 months ended July 31, against $8.82 for the like prior period. This suggests net for the fiscal year ending October 31 probably in excess of last year's record $12.09 a share. Yet a year-end extra of $3, bringing the 1950 total to $5, would merely equal 1949 dividends. At 58, the stock is a high-yield issue: about 8.6%. There are a number of reasons for that. The business is highly cyclical. Earnings above $12 a share are decidedly abnormal, even on the basis of a 38% tax rate. Earnings at a 45% rate, plus an EPT, might be nearer $7 a share than $12. Finally, present volume probably cannot be maintained, even if demand should be, when rising arms needs begin to limit supplies of steel and other metals in civilian uses. Meanwhile, the stock is at a double top, the 1946 bull-market high having been 58½. Without denying a possibility of still higher prices, this column would rather salt down long-term profits in the stock, or part of them, than buy it at this level.

Inland Steel

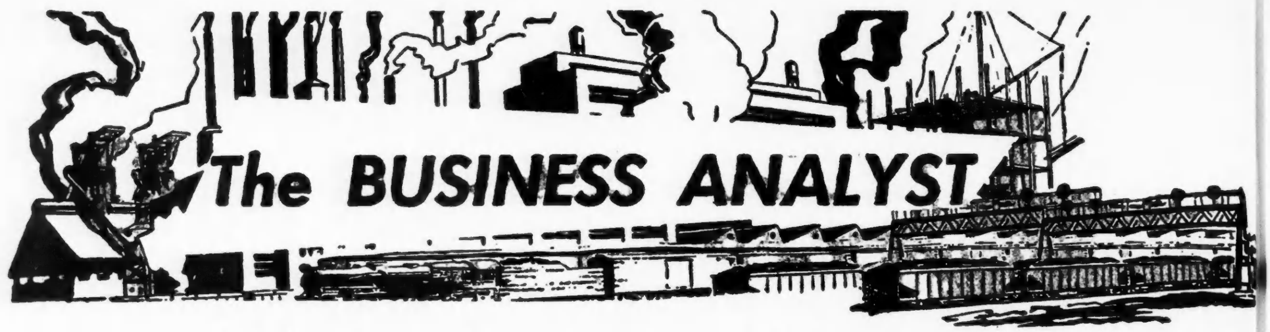
One of the most efficient in the steel industry, Inland probably will net at least $7 a share this year under any kind of a retroactive EPT; and probably over $8 if there is no retroactive EPT. Dividends are on a regular $2 a year rate, which is low relative to earnings and in view of strong finances. A year-end payment of at least $1.50 would seem in order, although, of course, we cannot guarantee it. The stock, now 50½, has reached a new all-time high. It sold at 44⅝ in 1946, which was about 14 times that year's per-share earnings; and at 43¾ as far back as 1937 on net of $3.25, a P-E ratio of 16.3. Either it was greatly overpriced at the 1946 and 1937 highs, or it is quite moderately priced now at something like 6 to 7 times probable 1950 share net. Take your pick. The writer will merely say that it could well go at least somewhat higher, in view of the current good performance of steels generally; and of their habit of figuring prominently in late phases of market advances.

Ohio Oil

At 40½, close to the 1948 all-time high of 43, Ohio Oil is one of the best available oil stocks in a medium price range. Compared with the giants of the industry, it is a medium-sized company, doing a volume of about $190 million a year. However, Ohio Oil is fully integrated, with a crude-oil capacity exceeding refinery needs. Like other good oils, the stock has inflation-hedge characteristics; and enjoys a sheltered tax position. Under the present higher normal tax rate, earnings for 1950 should about match last year's satisfactory $5.13 a share; and in time they may well approach 1948's peak $7.52. Dividends are figured at $2.30, allowing for a 30-cent year-end extra. On this basis the current yield is about 5.7%.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

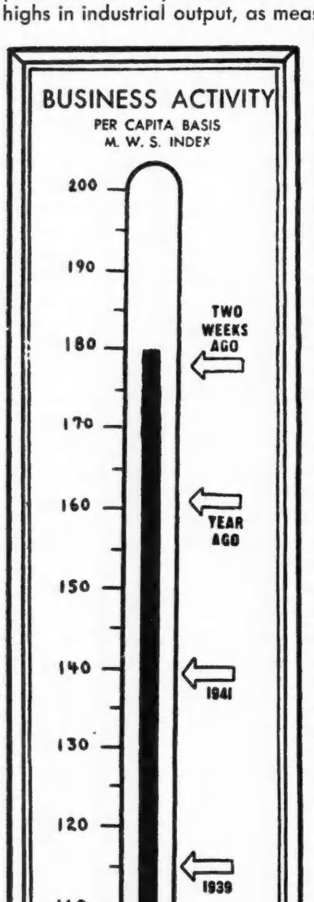
		1950	1949
Great Northern Ry.	8 months August 31	$ .97	$2.72
Grant (W. T.) Co.	6 months July 31	.58	1.01
Wyandotte Worsted	August 31 Quarter	.52	1.01
Froedtert Grain & Malting Co.	Year July 31	1.78	3.43
Denver & Rio Grande Western	8 months August 31	1.99	3.29
Waukesha Motor Co.	Year July 31	1.05	1.70
United Electric Coal Companies	Year July 31	2.01	4.61
Consolidated Laundries	36 weeks Sept. 9	1.11	1.62
Warren Petroleum Corp.	Year June 30	2.63	4.10
Beatrice Foods	August 31 Quarter	.97	1.32



What's Ahead for Business?

By E. K. A.

The economy remains in high gear and traveling at a faster pace than at any time since the end of World War II. New highs in industrial output, as measured by the Federal Reserve Board's index have been established. The index, which in September reached 212% of the 1935-39 average, is likely to approximate 215% in October. Orders now on manufacturers' books point to a stepping up in the rate of production. However, it must also be noted that the peak of the upswing which began in June was reached in August and that the rate of increase in new orders for September was substantially less than the high August trend.



Whether this falling off, once it begins to be felt at the production level, will be promptly compensated for by rising military orders is still a question that cannot be answered with too much assurance, one way or another. So far war orders have not yet had much impact on industry, and where they entered the picture, they have not forced any cutbacks of civilian production. Prices on the other hand continue to spiral upwards, closely following wage increases.

Regulation No. 2 was issued by the National Production authority, giving defense business the right of way in industry. Regulation No. 1, previously issued, restricted inventories. However, because defense business is so slow in getting under way, full impact will not be felt until well into the next year. Most defense requirements appear still in the planning stage, and while there may soon come priority orders on steel and aluminum, the tempo for some time will remain slow. This means that for the balance of the year at least, there will be little interference with civilian business.

Defense requirements for metals have not yet been determined and allocations for steel, copper, aluminum and brass products are unlikely before the next two or three months, according to present Washington thinking. It is likely that when the supply pie is divided, there may not be too much pressure from guns on butter.

One reason is that building and automobiles, despite the recent rush of consumers to get in under the wire, are slated to move toward quieter demand, partly due to credit curbs; and that the appliance business, the boom of which has been greatly tied to the tail of kiting housing, is also likely to subside.

Building activity in September hit another all-time high but has lost some of its pep. The sudden deflation of lumber prices is a straw in the wind.

So far credit controls have had a mixed effect in appliance fields. Lesser known products have suffered, as one of their chief selling points was easy credit terms. Likewise, many volume-minded retail firms that were offering no down-payments and long repayment schedules, have lost their main sales appeal. On the other hand, many large, well established retailers, in putting into the effect the terms called for by Regulation "W," have actually lowered their credit terms and thus are in better competitive position than before.

Trend in Retail Trade

Retail trade continues to show fair gains over year-ago figures but retailers are not too happy, because the increase is just in dollar volume, reflecting rising prices, and not in unit figures which are declining. It is said that in various areas of the country, it took some heavy promotions to achieve the results shown. Also, there is quite some unbalance with "big ticket" items ahead and soft goods on the slow side. Rising prices are having their effect on consumer spending: they are being resisted. Resistance may grow under the future impact of higher individual income taxes and higher cost-of-living. And underlying forces still are on the side of rising prices.

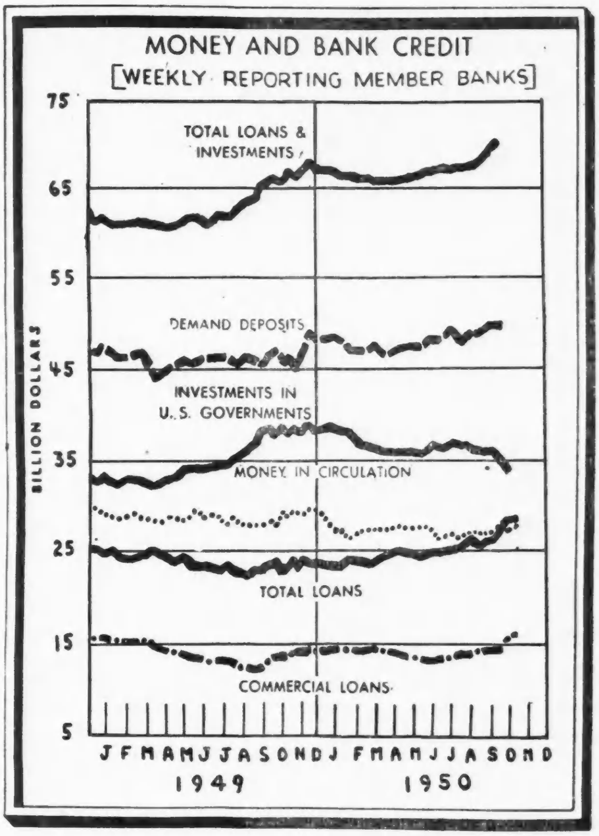
For instance, finished goods prices still do not yet fully reflect recent increases in prices of raw materials, or wage increases already granted or being granted. Substantial wage boosts to steel workers certainly will mean higher steel prices, giving inflation another boost all around.

Combined rise of wage and materials costs points to a further rise in finished products unless profits are to be squeezed rather sharply and that seems unlikely at this juncture. With the possibility of an eventual price freeze ahead, companies understandably are reluctant to accept narrower profit margins which might then be frozen indefinitely. The trend has been in the other direction.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—All three of our major common stock indexes advanced during the fortnight ended October 7 to new highs since 1946. Of the 46 group indexes, 19 also reached new highs for various periods, as tabulated on the second page following. The petroleum and sulphur groups climbed to new all-time highs. New York bank stocks made further small gains; but are still below the July 1 average. Corporate preferred stocks and foreign government dollar bonds also showed small average improvement—the latter under leadership of Scandinavian issues; but corporate bonds were off fractionally. The non-bank Victory 2½s held unchanged; but the bank-eligible series sagged to a new low since June 25, 1949. Life insurance sales in August were largest for any month on record, and 42% above the corresponding month last year. Earnings reported by national banks for the first half were 7% above the first half of 1949, while cash dividend payments rose 6%. Somewhat higher interest rates, and shifting of earning assets out of U. S. securities into better yielding non-Government loans and investments were factors in the improvement. Following the lead of other short term loans, commercial paper rates have advanced by ⅛%. In the fortnight ended September 27, weekly reporting member banks sold an additional $995 million of U. S. Government securities and expanded their loans by $766 million. Commercial loans by New York City banks soared to an all-time high. Demand deposits were off $31 million; but are still $2,781 million larger than a year ago. In the fortnight ended October 4, the Federal gross debt was reduced $482 million, and is now $191 smaller than a year ago. The Federal budget shows a surplus of $45 million for the fiscal year to October 4, against a deficit of $2,021 for the corresponding period last year. In its futile struggle with the Treasury to force higher yields on U. S. securities, the Federal Reserve System was obliged to acquire $849 of short term securities, with a resulting increase of $327 million in member bank reserves, thereby defeating its announced aims of curbing expansion in bank credit. It is of course natural for the commercial banks to want higher interest rates, which lead to larger earnings; but experience in 1929, when interest rates soared to record heights, proved that high interest rates do not discourage an inflationary expansion in credit. In those days, everyone who had any spare cash hurried out to lend it in the call money market at 20% or over. To implement its fallacious notion that rising interest rates are anti-inflationary, the Federal Reserve has acquired $13.8 billion of Federal short-term notes during the past 12-months and sold $12.4 billion of other U. S. securities, thereby adding $1.4 billion to member bank reserves for use in expanding credit. Treasury notes now constitute 72% of its total holdings of U. S. securities. Unfortunately, the Federal Reserve has only limited authority to curb credit expansion by fiscal measures alone. Of total holdings of $19.4 billions of U. S. securities, only $5.3 billion are left that can be sold under its present policy of impounding Treasury notes, holdings of which now amount to $14.1 billion. It could, and probably will, raise reserve requirements; but the maximum increase now permitted by law would reduce deposits by only 15%, and the banks could handle most of this by speeding up sales of U. S. securities. The Federal Reserve would have to take a large slice of such sales, and thereby build up bank reserves again. At the opening of trading on Monday, October 2, the Canadian dollar was freed to seek its natural level under the unhampered law of supply and demand. Up to present writing, its value in terms of the U. S. dollar has risen about 5%. Banking opinion is that parity may be reached before long. Meanwhile the British treasury announces that gold and dollar reserves held by sterling area nations have more than doubled since devaluation of the pound on September 18, 1949. Such gratifying improvement has given rise to rumors that the pound sterling may be revalued before long. Gold shares have declined sharply on the London market and traders outside Canada and the sterling area are buying Canadian and British empire securities as a speculation. On the other hand, it is expected that Finland will again have to devalue her finnmark before the year-end to hold her exports of lumber and paper in competitive world markets. Finland devalued her currency 40% on September 17, 1949, following a similar move made the previous July 4. The finnmark's official value is now 231 to the dollar.



TRADE—Department store sales during the closing week of September settled back to a total only 6% above last year following another buying spurt of only a fortnight's duration inspired by a desire to acquire furniture and other household equipment before stiffer consumer credit regulations became effective on October 1. Sales at wholesale during August

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Sept.	1.20	1.26	1.30	1.55
Cumulative from mid-1940	Sept.	401.3	400.1	382.2	13.8
FEDERAL GROSS DEBT—$b	Oct. 4	256.3	256.8	256.5	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Sept. 27	49.2	49.0	46.4	26.1
Currency in Circulation	Oct. 4	27.2	27.1	27.3	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Sept. 27	10.15	10.03	8.22	4.26
93 Other Centers—$b	Sept. 27	14.44	14.14	11.69	7.60
PERSONAL INCOMES—$b (cd2)	July	222	220	205	102
Salaries and Wages	July	147	147	136	66
Proprietors' Incomes	July	45	42	40	23
Interest and Dividends	July	18	18	17	10
Transfer Payments	July	12	13	12	3
(INCOME FROM AGRICULTURE)	July	20	19	19	10
POPULATION—m (e) (cb)	Sept.	152.3	152.1	149.7	33.8
Non-Institutional, Age 14 & Over	Sept.	111.0	110.9	109.9	01.8
Labor Force	Sept.	65.0	66.2	64.4	57.5
Military	Sept.	1.45	1.34	1.46	1.89
Civilian	Sept.	63.6	64.9	62.8	55.6
Unemployed	Sept.	2.3	2.5	3.3	3.8
Employed	Sept.	61.2	62.4	59.4	51.8
In Agriculture	Sept.	7.8	8.2	8.2	8.0
Non-Farm	Sept.	53.4	54.2	51.2	43.8
At Work	Sept.	50.9	50.0	48.9	43.2
Weekly Hours	Sept.	43.3	42.3	43.3	42.0
Man-Hours Weekly—b	Sept.	2.20	2.11	2.12	1.82
EMPLOYEES, Non-Farm—m (lb)	Aug.	44.9	44.1	43.0	37.5
Government	Aug.	5.8	5.7	5.8	4.8
Factory	Aug.	12.7	12.1	11.6	11.7
Weekly Hours	Aug.	41.2	40.5	39.1	40.4
Hourly Wage (cents)	Aug.	146.3	146.2	139.9	77.3
Weekly Wage ($)	Aug.	60.28	59.21	54.70	21.23
PRICES—Wholesale (lb2)	Oct. 3	168.9	169.4	152.3	92.5
Retail (cdlb)	July	190.0	187.3	186.8	116.2
COST OF LIVING (lb3)	Aug.	173.0	172.5	168.8	100.2
Food	Aug.	209.0	210.0	202.6	113.1
Clothing	Aug.	185.9	184.7	187.4	113.8
Rent	Aug.	124.8	124.4	120.8	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Aug.	12.47	12.21	10.63	4.72
Durable Goods	Aug.	4.78	4.67	3.63	1.07
Non-Durable Goods	Aug.	7.69	7.54	7.00	3.65
Dep't Store Sales (mrb)	Aug.	0.86	0.80	0.70	0.42
Retail Sales Credit, End Mo. (rb2)	Aug.	11.25	10.87	8.29	5.46
MANUFACTURERS'					
New Orders—$b (cd) Total	Aug.	27.9	24.0	18.7	14.6
Durable Goods	Aug.	13.6	11.5	12.4	7.1
Non-Durable Goods	Aug.	14.3	12.5	11.3	7.5
Shipments—$b (cd)—Total	Aug.	24.1	19.9	18.9	8.3
Durable Goods	Aug.	10.3	8.4	7.9	4.1
Non-Durable Goods	Aug.	13.8	11.5	11.0	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	July	54.6	55.2	54.3	28.6
Manufacturers'	July	31.8	31.7	32.3	16.4
Wholesalers'	July	9.1	9.2	8.8	4.1
Retailers'	July	13.7	14.3	13.2	8.1
Dept. Store Stocks (mrb)	Aug. 20	2.0	2.1	1.9	1.4
BUSINESS ACTIVITY—1—pc	Sept. 30	179.2	178.9	161.3	141.8
(M. W. S.)—1—np	Sept. 30	211.1	209.6	186.2	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 83)

spurted to a new all-time monthly high—12% ahead of July and 40% above the corresponding month last year.

o

INDUSTRY—Business volume continues to expand under the impetus of heavy demand of industrial origin. Stiffer curbs on building loans will cause some let-down in overall activity before long; but work expansion on a large volume of armament orders during the first quarter of next year will take up any resulting slack.

o

COMMODITIES — Farm products prices closed lower on the fortnight ended October 7 but metals were steady to strong.

o

BUSINESS ACTIVITY expanded 1½% during the fortnight ended September 30, thereby raising to 13.4% the margin of increase over a year ago.

* * *

For the month of September this publication's BUSINESS INDEX rose to 209.2% of the 1935-9 average, from 207.6 in August, registering a gain of 13.4% over the corresponding month last year. Third quarter averaged 206.5—up 6.4 points from the second quarter and 14% ahead of last year's third quarter. Average for 9 months was 199.7—8.5% better than for the corresponding period of 1949.

* * *

On a PER CAPITA BASIS, the index for September registered 178.2% of the 1935-9 average, compared with 177.0 for August and 159.8 in September, 1949. Third quarter average was 175.8, against 170.9 for July and 157.2 in September of last year. Average for nine months was 170.8, compared with 160.3 for the corresponding period of 1949.

* * *

EMPLOYMENT and unemployment declined as usual in September with the reopening of schools,. Unemployment, 159,000 lower than in August, was the smallest in 21 months. Employment, at 61,226,000, was the largest for any September in our history, though 1.1 million below August.

* * *

Manufacturers' NEW ORDERS and shipments set new records in August but inventories were off $200 million during the month. Orders for durable goods were 18% ahead of July, and 83% larger than for August of 1949. For non-durables, the increases were 15% and 27%, respectively. Backlogs of unfilled orders for durable goods rose $3.3 billion during August but backlogs for non-durables shrank $200 million.

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Aug.	207	196	170	174
Mining	Aug.	158	144	129	133
Durable Goods Mfr.	Aug.	245	236	193	220
Non-Durable Goods Mfr.	Aug.	191	181	165	151
CARLOADINGS—t—Total	Sept. 30	880	870	658	833
Manufactures & Miscellaneous	Sept. 30	412	403	365	379
Mdse. L. C. L.	Sept. 30	90	89	88	156
Grain	Sept. 30	51	50	55	43
ELEC. POWER Output (Kw.H.) m	Sept. 30	6,503	6,457	5,521	3,267
SOFT COAL, Prod. (st) m	Sept. 30	11.4	11.4	1.8	10.8
Cumulative from Jan. 1	Sept. 30	365	364	344	446
Stocks, End Mo.	Aug.	59.0	52.0	68.6	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Sept. 30	5.9	5.9	4.9	4.1
Gasoline Stocks	Sept. 30	104	105	104	86
Fuel Oil Stocks	Sept. 30	42	42	68	94
Heating Oil Stocks	Sept. 30	77	75	83	55
LUMBER, Prod.—(bd. ft.) m	Sept. 30	891	930	724	632
Stocks, End Mo. (bd. ft.) b	July	6.2	6.1	7.3	12.6
STEEL INGOT PROD. (st) m	Aug.	8.19	8.07	6.72	6.96
Cumulative from Jan. 1	Aug.	63.4	55.5	58.5	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Oct. 5	288	245	152	94
Cumulative from Jan. 1	Oct. 5	9,252	8,964	6,303	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Sept. 30	253	219	209	165
U. S. Newsprint Consumption (st)t	Aug.	450	437	413	352
Do., Stocks (mpt), End Month	Aug.	654	628	722	523
Cigarettes, Domestic Sales—b	Aug.	39.4	27.4	35.3	17.1
Do., Cigars—m	Aug.	587	400	516	543
Whiskley, Domestic Sales (tax gals.)m	July	6.6	5.3	4.0	8.1

PRESENT POSITION AND OUTLOOK

MACHINE TOOL ORDERS leaped to $1.1 billion in August—20% above July, and 6 times the low volume of a year ago. The backlog at tool and die shops reached a 3-year high.

* * *

FREIGHT CAR builders are reported to have enough orders already booked with more to come) to keep every plant busy at capacity for a year ahead. During August, the railroads rebuilt, repaired and restored to service more freight cars than in any one month since October, 1939.

* * *

Expenditures on new CONSTRUCTION hit a new high of $2,794 million in September —26% above a year earlier; though only 1% ahead of August. Orders booked by manufacturers of FURNITURE during August were 13% ahead of July, and 80% above the corresponding month of last year, compared with an increase of only 49% for eight months. Factory sales of household WASHERS during August were 35% above July but only 18% ahead of August, 1949.

* * *

The expected drop in HOME BUILDING a few months hence will be largely seasonal, but made sharper than usual by tightened credit curbs. Other factors include the rapid rise in the supply of new homes and higher building costs, averaging about 10% over a year ago.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. l—Seasonally adjusted index (1935-9—100). lb.—Labor Bureau. lb2—Labor Bureau (1926-100). lb3—Labor Bureau (1935—100). lt—Long tons. m— Millions. mpt—At mills, publishers, and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and charge accounts. st—Short tons. t—Thousands. *—1941: November, or week ended December 6.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

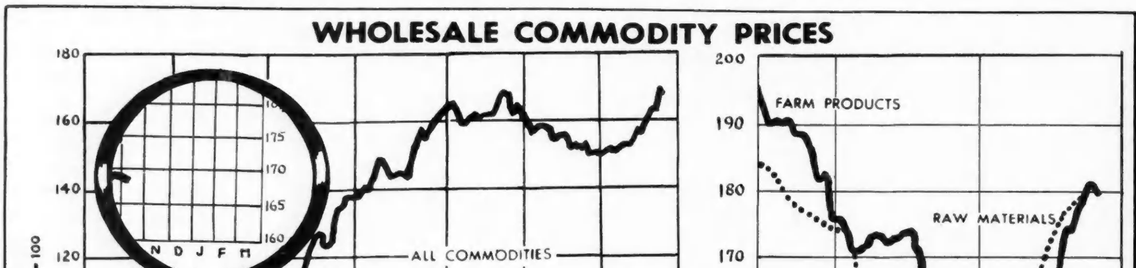
No. of Issues (1925 Close—100)	1950 Indexes High	Low	Sept. 29	Oct. 7
325 COMBINED AVERAGE	165.0	134.7	159.9	165.0D
4 Agricultural Implements	232.7	180.7	226.2	232.7B
10 Aircraft (1927 Cl.—100)	262.9	170.8	235.5	242.3
6 Air Lines (1934 Cl.—100)	538.3	450.3	488.7	499.6
7 Amusement	104.4	78.0	96.8	96.6
10 Automobile Accessories	241.7	195.6	231.5	233.7
12 Automobiles	38.9	28.5	37.3	38.9B
3 Baking (1926 Cl.—100)	23.3	19.0	20.6	20.5
3 Business Machines	276.5	226.5	271.6	276.5
2 Bus Lines (1926 Cl.—100)	176.6	145.9	153.9	152.1
5 Chemicals	306.3	254.4	297.4	300.1
3 Coal Mining	14.5	11.3	14.0	14.5A
4 Communication	64.1	41.9	61.7	64.1D
9 Construction	64.9	51.3	59.7	58.9
7 Containers	356.9	282.1	355.0	356.9C
9 Copper & Brass	112.3	80.3	108.1	109.5
2 Dairy Products	81.2	68.1	78.5	81.2D
5 Department Stores	73.3	56.6	71.4	71.4
6 Drugs & Toilet Articles	209.8	170.2	193.3	202.2
2 Finance Companies	361.8	253.8	294.8	286.4
7 Food Brands	182.5	162.0	182.5C	180.6
2 Food Stores	108.0	86.3	97.9	101.1
3 Furnishings	80.8	61.1	67.4	73.1
4 Gold Mining	753.5	509.7	627.8	601.4

(Nov. 14, 1936, Cl.—100)	High	Low	Sept. 29	Oct. 7
100 HIGH PRICED STOCKS	102.07	85.27	99.80	102.07D
100 LOW PRICED STOCKS	194.12	151.88	189.12	194.12D
5 Investment Trusts	79.9	66.5	76.0	78.7
3 Liquor (1927 Cl.—100)	1023.9	797.3	1004.5	1023.9D
11 Machinery	170.1	140.6	165.9	170.1B
3 Mail Order	130.6	99.6	126.2	130.6C
3 Meat Packing	103.3	85.9	101.4	103.3B
12 Metals, Miscellaneous	198.5	139.9	186.4	191.6
4 Paper	303.3	213.4	294.7	302.6
30 Petroleum	326.1	243.0	313.5	326.1Z
27 Public Utilities	153.7	127.7	138.3	137.8
5 Radio & TV (1927 Cl.—100)	35.3	18.1	31.3	31.2
9 Railroad Equipment	58.0	43.0	53.9	58.0B
24 Railroads	31.8	22.3	30.1	31.8D
3 Realty	36.9	30.7	36.1	36.9D
3 Shipbuilding	166.2	139.7	149.5	147.9
3 Soft Drinks	391.6	295.9	306.1	349.0
15 Steel & Iron	140.4	96.1	134.5	140.4D
3 Sugar	61.9	48.7	58.9	61.8
2 Sulphur	412.1	301.6	393.8	412.1Z
5 Textiles	166.8	119.9	162.3	164.8
3 Tires & Rubber	47.2	32.0	46.0	47.2D
6 Tobacco	88.2	77.3	85.2	84.9
2 Variety Stores	352.3	313.2	329.2	327.5
19 Unclassified (1949 Cl.—100)	113.3	93.2	112.8	113.3A

New HIGH since: A—1949; B—1948; C—1947; D—1946. Z—New all-time HIGH.

Trend of Commodities

Both spot and futures indexes charted below sold off on the fortnight ended October 6. Grains, cotton, rubber and wool were reactionary; but metals were steady to firm. Spot tin closed at $1.07½ a pound, only 2½ cents below the record high of $1.10 touched in 1918. With shipments of sulphur running ahead of production, the price has been hiked $4 a ton to $22, for domestic users, and $3 a ton to $25 for export. Petroleum producers look for a price advance before long—first increases since 1947. All curbs on cotton production and marketing for the 1951 crop have been dropped. Agriculture Secretary Brannan has asked for production of 16 million bales in 1951—60% more than this year's restricted harvest. The big question here is: "Will there be enough seed?" Production last year, unrestricted, was a little more than 16 million bales. Cotton surplus from the 1948 and 1949 crops in Government hands has shrunk from 7 million bales held only a few months ago to around 2 million at the present time. Exports alone are running at an annual rate of about 7 million bales. The Government had previously authorized greatest production of wheat next year, and is expected to call soon for bigger corn and rice acreages. The Agriculture Department has set a national average price support for the 1950 corn crop at $1.47 a bushel—7 cents above last year, to compensate for higher costs. Cash corn now brings about $1.57 at Chicago. Trade observers look for a dip in sugar prices before many months have passed. The domestic sugar quota for 1950 has been boosted to 8.7 million tons—1.12 million above last year's distribution and 630,000 tons more than the record use in 1941. September deliveries were only half the July hoarding peak, and even smaller than a year earlier.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

	Date Sept. 9	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1Yr. Ago	Dec. 6 1941
28 Basic Commodities	327.0	329.1	331.3	266.7	246.0	252.1	156.9
11 Imported Commodities	353.3	353.6	351.9	264.8	249.0	250.7	157.3
17 Domestic Commodities	311.0	314.2	318.6	267.9	244.1	252.9	156.6

	Date Sept. 9	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1Yr. Ago	Dec. 6 1941
7 Domestic Agriculture	345.6	351.5	360.9	327.3	304.4	304.8	163.9
12 Foodstuffs	349.7	357.2	371.0	330.9	306.3	301.6	169.2
16 Raw Industrials	316.0	313.5	310.3	242.4	218.9	229.7	148.2

14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	179.1	161.5	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7

Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	191.2	146.2	184.4	111.7	88.9	67.9	57.7	86.6
Low	140.8	128.6	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

Twin Coach Company, long known as a bus manufacturer, has entered the motor truck industry with a novel line of large capacity cargo vehicles. The new trucks will be known as Fageol Super Freighters. Standard Fruehauf trailers, equipped with underbody engines that eliminate the need for a traditional hauler, are being offered to comprise a broad line. These self-propelled trailers with their under-floor engines of special pancake design provide more payload space than any standard motor truck of similar wheelbase, are 8 to 10 feet shorter than tractor-trailers and weigh at least 5000 pounds less. Either gasoline or propane gas can be used for fuel. Aside from use as cargo trucks, the Super Freighters can be built to serve a number of other purposes—as refrigerator trucks, moving vans or livestock carriers.

The Government's decision to reactivate all the nation's facilities to produce man-made rubber, many of which have been closed since the end of World War II, should provide an estimated 5000 new jobs, according to William S. Harrison, president of **B. F. Goodrich Chemical Company.** The expanded program to produce 929,000 long tons of synthetic rubber will strain the available supply of technical man-power, but the industry expects to meet this severe test. B. F. Goodrich, largest producer of synthetic rubber in the last war, has the responsibility of producing 150,000 long tons under the new government program.

United States Rubber Company also has been busy since July with preparations to reopen a huge government-owned rubber plant, and announces that production has just begun—20 days ahead of schedule. At a cost of more than a million dollars, engineers of U. S. Rubber have reactivated and modernied the plant whose capacity has been increased to 72,000 long tons a year from formerly 60,000 tons. The plant originally represented an investment of $11 million and to reactivate it, every valve, tank, reactor and a maze of piping had to be torn down, cleaned, inspected and finally reassembled. Installation of new pumps and metering equipment helped to improve operating efficiency.

As an indication of the insatiable demand for new television sets, a recent experience by **Sylvania Electric Products, Inc.** is of interest. On September 25, the company had allotted a substantial number of TV sets to its Minneapolis wholesale distributor in connection with an "open house" offering. Within an hour after the doors opened, a flood of orders placed by dealers completely exhausted the entire supply.

At Palmer, Massachusetts, **United States Plywood Company** recently acquired a former plant of the White Aircraft Corporation for manufacture of civilian products, but the facility now is engaged almost exclusively in making items for the Armed Forces. Such products as honeycomb building panels, Arctic shelters and vans, plastic tubing, radomes and carrying cases made of thin metal bonded to wood are included in the present output.

When **Pan American World Airways** recently handed a check for $17.45 million to American Overseas Airlines, thousands of different assets, ranging from three cent stamps to $1.5 million stratocruisers passed to the ownership of the buyer. In order to effect and facilitate the legal transfer simultaneously orders by telephone, radio and telegraph had to be sent to 16 domestic stations and those in 14 foreign countries, as well as to captains of flagships in midocean to complete the transaction. At home and abroad, AOA ticket counters shut down to count their cash before reopening a few minutes later under new ownership.

Unfilled orders in excess of $27 million are reported by **Barium Steel Company,** the largest backlog in the history of the corporation. The management has informed stockholders that to the best of their knowledge, none of this volume comes directly from governmental sources. A number of subsidiaries, though, are negotiating a large amount of business with various Federal Departments and definite orders on quite a scale may result. Barium Steel produces a wide range of steel products, many of which should be in substantial demand for the defense program.

Incinerators that have long been in use by multi-room houses, may now be applied to individual homes because of a new device developed by **Bowser, Inc.** Termed an "Incinor", this automatic equipment has a capacity of two bushels for the care-free disposal of garbage, refuse and waste paper. The unit can be used with all types of gases at both high and low altitudes. By the turn of a dial, the heat will automatically cease at any predetermined time.

Wrathy manufacturers in the **Television Industry** are hinting they may go to court with a charge that the Federal Communications Commission has exceeded its authority in alloting to CBS the sole privilege of using its new TV color system. The set makers point out that months would be required to produce adapters and converters for present black and white sets, and that it would be entirely impractical to apply them to any but the smaller screens. But the monopoly created by the FCC decision is what has aroused many of the leading television con-

cerns to fever heat, as most of them have developed other systems or are in the process of doing so at very heavy expense. They consider the FCC edict scientifically unsound and entirely against public interest.

Standard equipment on all new **Chrysler Corporation** cars includes a new type radiator cap which provides a sealed pressure cooling system during abnormal driving conditions, while at the same time permitting the cooling system to operate at outside atmospheric pressure in normal driving. Incorporated in the new radiator cap is a special vent valve that controls the amount of pressure in the cooling system that normally effects the boiling point of the liquid. The sealed-in pressure allows the engine to operate at relatively high temperatures without causing the cooling agent to boil or evaporate. This new device can be readily installed on all 1949 or early 1950 Chrysler models.

A new **Du Pont** laboratory devoted to research and development work in the field of photographic films and processes has just been formally opened in Parlin, N. J. This facility, built at a cost of more than a million dollars, will permit study of improvements in color photography, motion picture films and for new development processes for black and white or color films. Better products for the X-ray and graphic arts fields will also come under study. The new building has no windows, as lighting is indirect throughout and the temperature is entirely controlled by air conditioning equipment.

The first 2.1 miles of Denver's portion of the new $20 million Colorado Valley Highway will be lighted by 289 latest type mercury vapor street lights provided by **General Electric Company.** These mercury units are the first of 1800 that eventually will illuminate the full 12 mile stretch of highway within Denver's limits. The new luminaries will be mounted on metal poles spaced 90 feet apart. Suspended on 15-foot bracket arms, the lights will shine 30 feet above the pavement.

The Chemstrand Corporation, jointly owned by Monsanto Chemical Company and American Viscose Corporation, plans to construct a multi-million dollar plant on a 656-acre site west of Decatur, Alabama, on the Tennessee River. Chemstrand has a new fiber, resulting from prolonged research in the laboratories of the company's parents, and is confident that this will add new qualities to the growing list of fabrics made from synthetics. Chemstrand will shortly begin operation of another synthetic fiber staple plant at Marcus Hook, Pa., where a million pounds will be produced annually. Up until now, the acrylonitrile-type fiber has been produced only in laboratory quantities.

Now that banking and business statistics so often involve billions rather than millions, **Victor Adding Machine Company** has developed a new big-capacity adding machine capable of handling 11-column figures. Called the "Custom" because it is tailored to do the most exacting work in computations that involve addition, subtraction or complicated credit balances, the new electrically operated device is designed to cut down paper work that is mounting sharply with increased demands made by new taxes and added defense work in many plants and offices.

In distributing current **Chesapeake & Ohio Railway** dividend checks to stockholders, President Tuohy included a letter concerning the coal industry. The claim was made that "King Coal will continue to rule the nation's fuel business, even if people start using liquids and gases for heat and power." Attention was called to the fact that bituminous coal production in 1950 will probably exceed 500 million tons compared with last year's 435 million tons. Mr. Tuohy quotes Dr. Arno Fieldner, the Government's top expert on fuels, as predicting that ultimately coal will be the primary source of not only of solid fuels but of liquid and gaseous fuels as well.

Rapidly expanding demand for foam rubber products has induced the **Goodyear Tire & Rubber Company** to spend more than $1 million to manufacture Airfoam cushioning material in Los Angeles as well as at Akron, Ohio. Barring Government restrictions on the use of latex, production in the new western plant should begin shortly after the turn of the year. Employment will be given to at least 1000 workers, and western makers of automotive seating and furniture will have a readily accessible source of foam rubber supply. Already the nation's largest producer of this material, Goodyear's Los Angeles expansion will put it far in the lead, with two Akron plants working round-the-clock shifts to keep abreast of demand.

Allis-Chalmers Manufacturing Company, through a subsidiary, has purchased the Erie Iron Works in St. Thomas, Ontario, and has acquired an additional seven acres of land from the city. The plant was completed in 1948 and has 19,000 square feet of space. The company foreseeing future needs for expansion at this location has taken an option on 24 acres of adjoining land. The general machinery division presently plans to manufacture and assemble products that will become components of finished equipment such as controls for diesel locomotives produced by the General Motors diesel plant of London, Ontario.

One of the most extensive motion picture tie-in advertising campaigns in dictating machine history is being launched by **Dictaphone Company.** The campaign is tied in with MGM's new thriller in which Clark Gable and Barbara Stanwick are the stars. In this film, a Dictaphone Time-Master plays an important role, since Barbara uses one in the role of a hard-hitting newspaper columnist to dictate tirades against her co-star, a race car driver known as a killer. Dictaphone is widely advertising the tie-in with this film, "To Please A Lady", on a national and local scale.

The Long Lines Department of the **American Telephone and Telegraph Company** this year is observing its fiftieth anniversary. Starting with a few open wire lines in 1900, Long Lines now operates over 20 million miles of circuits that tie in with 21 other Bell System companies and 5600 independent telephone companies, besides connecting with radiotelephone circuits that enable Americans to reach 96% of the world's telephones. When Long Lines first came into being, a 100-mile call was something of an adventure that strained both vocal cords and the ears.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

International Minerals & Chemicals

"Please furnish information as to principal divisions of International Minerals & Chemicals' business. Also recent annual earnings and company's record of progress over the past five years."

L. C., Saginaw, Michigan

In the fiscal year ended June 30, 1950, International Minerals & Chemicals reported the largest year in the corporation's history in both sales and earnings and this is the fifth consecutive year in which earnings have established new records. This has enabled the company to raise its annual dividend twice this year, to $2.80 a share in May and to $3.20 in September. The increases in dividend over the last few years were as follows: in 1949—$2.00, in 1948—$1.70, $1.60 in 1947, $1.00 in 1943-46. The steady increase in net income has made the higher payments possible.

Net income for fiscal year ended June 30, 1950 was $5,776,660 as compared with $5,421,017 the previous year. Earnings per common share amounted to $6.80 on the 791,870 shares outstanding at June 30, 1950, an increase of 7% over the $6.36 per share reported on the 790,305 shares outstanding June 30, 1949.

Net sales for the year were $58,402,180 an increase of 9% over the sales of $53,394,760 last year and an increase of 17% over sales of $50,123,269 for the year ended June 30, 1948.

Net working capital at June 30, 1950 was $19,676,783 showing an increase of $4,243,465, or 27% during the year. Cash balances were $8,304,004 which showed a good increase over the preceding year.

Expenditures for construction during the year amounted to $2,376,035 representing principally the cost of ordinary replacements and minor additions.

Substanital increases in the sales and productions of the Phosphate and Amino Products Division more than offset decreases in the sales and production of the Plant Food and Potash Division. The sales of potash would have exceeded a year ago except for a work stoppage of 73 days caused by a strike.

Plant Food Division sales were 3% less than last year. Phosphate sales and production were the greatest of any year in the corporation's history, chiefly as a result of production increases of high-grade phosphate in Florida and record export shipments. The Amino Products Division increased its sales by 34%.

Animal feeds, pharmaceuticals, refined potassium chloride and other chemicals contributed to the sales and production increase in lesser but growing amounts.

Prospects for the company over coming months continue favorable.

United Wallpaper, Inc.

"With a strong demand for new housing in the past year or so I am surprised that United Wallpaper has operated at a loss. Will you please give the reason for this and also recent book value per share."

R. F., Elizabeth, New Jersey

Net sales of United Wallpaper, Inc., world's largest wallpaper manufacturer, for the fiscal year ended June 30, 1950, were $8,242,519, compared with $16,052,952 for the preceding year.

A net loss of $592,689 equal to deficit of 55¢ per share was reported, after all charges and allowing for an estimated refund of Federal income taxes of $311,441. For the previous year company reported net income of $793,181 equal to 59¢ per common share.

Net working capital as of June 30, 1950 was $2,802,325, after a provision of $300,000 for prior years federal income taxes which was charged to earned surplus, compared with $4,312,851, for the fiscal year ended June 30, 1949.

As of June 30, 1950, the book value of the common stock was $5.33 per share, and ratio of current assets to current liabilities stood at 2.38 to 1.

The drastic reduction in sales last year was primarily due to three factors: 1. The two-year line program in the industry instituted at the insistence of customers, wherein since the termination of World War II, new lines have been introduced each two years (a new line is just now being introduced) instead of the previous practice of a new line each year. 2. Decline in sales to consumers by distributors and their dealers because of high labor costs for paper hanging, and lack of the landlord-tenant redecorating market. 3. Foreign competition.

United Wallpaper has not profited from the new housing program of the past year or so as the wallpaper industry does not, as a matter of fact, normally share largely in a building boom. Over a period of years, less than 5% of the industry's volume comes from new construction. This is basically because 90% of the

building is speculative, and the contractor puts on a coat of paint and sells the house without wall decorations. The great majority of the wallpaper business is from redecoration of existing buildings. Normally, 30% of the industry's volume is from so-called landlord-tenant business, of which, because of rent freezing, there has been none since the beginning of the war.

The company is again bidding on war contract work and expects to be successful in securing contracts in the near future. During World War II, United Wallpaper was actively engaged in war production, and at one time was operating seven plants devoted exclusively to war contracts.

Last dividend payment on the common stock was September 16, 1947.

Universal Leaf Tobacco Company

"Has Universal Leaf Tobacco Company shown good stability of earnings in recent years? What is the company's financial position?"
C. D., Camden, New Jersey

Net income of Universal Leaf Tobacco Company for the fiscal year ended June 30, 1950 was $2.54 per share on the common stock outstanding, after providing for the dividend on the preferred stock. This compares with $2.37 a share earned in the fiscal year ended June 30, 1949 and $2.31 in the 1948 fiscal year. Thus, good stability of earnings has been shown in recent years.

During the year the Nyasaland Company was capitalized; stock interest in a new domestic company was purchased; and the entire stock of one subsidiary, heretofore carried as Investment in Affiliated Companies, was acquired and brought into the consolidated statement.

Several storage warehouses were erected and further expenditures for modernization of equipment were undertaken. The improved procedures and equipment installed since the war will be of assistance in coping with the rises in labor rates that have been incurred.

A part of the export business has been accomplished through barter and kindred operations, and company is attempting to lay a satisfactory basis for this type of operation against the termination of the Marshall Plan in 1952. Company's export business during the past year was good and indicated demand prior to the opening of the current crop auctions pointed to a satisfactory export business in the coming year.

In the meantime, the new crop auctions have opened at drastically higher levels, and a continuation of these prices will undoubtedly result in lowering of the total tonnage exported from this country. Efforts will be made to have the Government permit a more liberal acreage allotment than the policy followed in recent years, which has brought to us our present situation of having a smaller supply of "Flue-cured" tobaccos than the world market is prepared to absorb.

Consolidated balance sheet as of June 30, 1950, showed total current assets of $19,227,810, total current liabilities of $7,257,-459, leaving net working capital of $12,370,351.

Dividend declarations up to November 1st this year were $1.70 per share and the same amount was paid in the full year of 1949.

Gar Wood Industries

Has Gar Wood Industries operated at a profit recently? Please furnish information as to recent sales and net return."
G. P., Chester, Pa.

Sales of Gar Wood Industries for the nine months to July 31, 1950 were $13,942,708 on which a deficit of $1,889,390 was incurred and this equals a deficit of $1.94 per common share. Comparative sales for the first nine months of the preceding year to July 31, 1949 were $17,708,013 and net profit was $144,958, equal to profit of 4c per common share. The above figures are on 1,027,900 common shares outstanding in both periods.

Company manufactures and distributes tractor and truck equipment such as hoists, bodies, sanitary garbage collection units, winches, cranes, tanks, ditchers, shovels, spreaders, finegraders, road machinery, such as bulldozers, scrapers, rippers, road truck patrol apparatus and allied equipment.

On July 12, 1950, directors voted to omit the regular quarterly dividend of 56¼¢ on $50. par 4½% convertible preferred stock because of capital requirements connected with the company's building expansion program at Wayne, Michigan, and the acquisition of the assets of National Truck Equipment Company of Waukesha, Wisconsin. No dividends have been paid on the common stock since January 1946.

Lane Bryant, Inc.

"Does Lane Bryant operate a retail specialty business or does it do a general department store business? How long is the business established and what were its recent sales and earnings?"
M. S., Waukegan, Illinois

Lane Bryant does a general retail business in women's, infant's and children's wear, specializing in the sale of stout women's and maternity apparel. The business is operated directly through ten stores in nine cities and by mail-order and also by subsidiaries through Lane Bryant departments in stores operated under other names.

For the six months ended July 31, 1950, net profits were estimated to be $580,000 as against $705,000 last year. These earnings are based on the LIFO method of determining inventory. Sales for the period were $23,899,739, down 7.6% from last year's figure of $25,854,246. After preferred stock dividends, earnings on the common stock were 96c per share compared with $1.18 in the corresponding period last year.

The above earnings reflect the Federal income taxes in effect at the beginning of the year.

Sales for the second quarter, the three months ended July 31, were almost even with last year after having been down 13.3% during the first quarter. This comparative pick-up began to occur before the Korean war. Recent sales have been ahead of last year. There has been an expansion of economic activity due to the international situation, but the effect upon consumer demand in the apparel line has not been exceptional to date.

A new branch store of Lane Bryant New York, company's first suburban unit, will open at Manhasset, Long Island in November.

This is Lane Bryant's 50th anniversary.

Earnings for the fiscal year ended January 31, 1950 were $1.51 per share.

Dividend rate is 25c quarterly.

Retail stores and rented departments are located in New York City, Brooklyn, New York; Philadelphia, Baltimore, Detroit, St. Louis, St. Paul, Des Moines and Davenport, Iowa; Chicago, Waukegan, Kankakee, Rockford, Decatur and Springfield, Ill.; Oshkosh and Green Bay, Wis.; South Bend, Indiana; Boston, Mass.; Miami Beach, Florida; and Cleveland, Ohio. Company also conducts a mail-order business in Indianapolis, Indiana.

New Industrial Expansion Ahead

(*Continued from page* 58)

on the upward dividend trend since corporate managements will again have more incentive to retain a larger share of earnings wherewith to finance expansion projects. Accelerated amortization of new facilities will in itself tend to affect reported net profits though in the long run, this will be a constructive factor.

Apart from that, a good many companies and industries stand to benefit from business that will come to them. Steel expansion should certainly swell the orders of such firms as Mesta Machine Co. and United Engineering & Foundry Co., leading makers of steel mill equipment; or of General Refractories Co., a prominent maker of refractory brick used in blast furnaces.

The railroad equipment industry is already benefitting from substantial new orders for rolling stock for the railroads. The machinery and tool industry is experiencing a sizeable boom due to urgent demand for new equipment; machinery shortages already loom as the big bottlenecks in the defense program as well as future industry expansion. The building materials industry, due to experience lessened demand in the wake of declining private building activity, will find a welcome, if probably only partial offset in the high level of industrial construction.

Once steel expansion begins to bear fruit, steel companies will show higher sales and earnings. And any improvement in the steel supply should benefit durable goods industries, enabling them to maintain a higher rate of operations on civilian output provided that no substantially larger quantities of steel are channeled into more essential production.

Generally, any improvement in supply, be it in steel, non-ferrous metals, rayon, nylon, petroleum products or whatever the case may be, will strengthen industry's position in meeting its vital role in a defense economy and lessen the need for drastic interference with civilian production. In turn this cannot but aid industrial earning power and corporate ability to pay dividends to stock-

holders regardless of a temporary need or desire to hold down disbursements for reasons of financial expediency.

Studebaker Corporation

(*Continued from page 77*)

40 cents in 1946 (after large tax credits). The comparison is further enhanced by the fact that during 1949, Studebaker charged off a $950,000 loss resulting from sale of the Empire Steel Company, a subsidiary no longer considered essential in view of ample other steel sources.

In the first six months of 1950, operations were affected by a reduction of $82 to $135 in the list price of all Studebaker passenger car models, the only such step taken throughout the industry. Regardless of this handicap on dollar volume, a resulting rise in unit sales held the decline in the net profit margin to a narrow limit, 5.6% versus 5.8% for all of 1949.

Dollar sales instead of declining actually advanced, as we have pointed out. Net earnings of $6.12 for six months were at an annual rate exceeding the $11.70 reported last year, but allowance must be made for the new 45% tax rate applicable to the second half, and perhaps a substantial EPT that will pare net earnings in the final six months. If pretax earnings of $19 million reported in the first half year are duplicated in the second half, the new income tax rate alone might reduce net per share to around $11 for the full year. The effect of any retroactive EPT can of course only be merely conjectured pending exact knowledge of terms and rates of application.

Looking ahead, Studebaker is just about to present its 1951 models to the public. Preparatory to their showing, the company announced a $50 increase on the 1951 Champion models and decreases ranging from $60 to $175 on its Commander models. In the case of the increases, the management blamed increased labor and material costs. The price reductions on Commander models are designed to place these cars in a new competitive position in the industry.

As for prospective volume, the company is well situated to handle an increasing amount of military

orders with little or no conversion troubles, or interference with regular output. As yet it is uncertain whether military requirements will necessitate a cutback in production of civilian vehicles, and if so, how much, though an eventual 10% cutback has been rumored for the industry as a whole. But to a considerable extent any such gap may be filled by less profitable output of trucks and munitions for the Armed Forces. Civilian demand may also recede a bit due to stricter credit terms, but it is interesting to note that about 43% of all cars in 1949 were bought for cash and that about 55% were purchased for business purposes. On the whole, it seems likely that Studebaker's volume may hold fairly steady and the current high level of earnings should provide quite a cushion for any prospective decline.

During the postwar boom, the dividend policies of Studebaker have been very conservative in order to build up cash resources, although annual payments have been increasingly liberal in the past few years. In relation to net earnings, however, dividends in 1948-49 averaged only a meager 22%.

In reflection of continued good business in the current year, the directors have been slightly more generous with a March dividend of 60 cents, and 75 cents in the two following quarters. A total of at least $2.85 per share thus seems assured for 1950 compared with $2.50 in 1949, without allowing for a liberal year-end extra that current good earnings and strong finances could comfortably warrant, and which is considered a distinct possibility.

Conclusion

At recent price of around 34, close to the year's high of 35⅜, Studebaker shares yield about 8.8% on basis of quarterly dividends payments of 75c which should be amply covered by earnings, and thus fairly assured, even under normal conditions when competition in the automotive field is keen and the going for the independents somewhat more difficult than during the "easy" postwar years. Moreover, the company enjoys a relatively favorable tax position, so that tax impacts are not likely to threaten dividends of the current size.

With the company operating in a normally high cyclical industry, the stock is admittedly speculative and, moreover, the arms program confuses the outlook somewhat. But allowing for any foreseeable conditions, we consider the stock moderately priced in relation to earnings and dividend prospects, hence holding distinct appreciation possibilities under proper market conditions.

Barring total war, the auto market is likely to remain substantial for years ahead and there is every indication of Studebaker's ability to hold, if not expand, its postwar gain in popularity and its relative share in industry sales. This augurs well for future earnings and dividends. In our view the stock has speculative appeal, even at current price, though it might be advisable to undertake any acquisitions during periods of general market recession.

Has the Movie Industry Turned the Corner?

(Continued from page 79)

profit margins has been an advantage derived from lower amortization charges on less costly films produced last year and this one. The complete original cost of the new films ordinarily is charged off in the course of a year, regardless of its public reception, hence allowances for amortization will cut less severely into operating margins now that less expensive pictures have been made for more than a year past. It will be realized that the gamble on pictures costing several million dollars was very great, and while still considerable on films costing closer to $1.5 million, the reduced amortization charges have effected substantial accounting economies.

Widespread uncertainties facing investors in movie shares as to the earnings potentials of large producing and theater companies, after segregation under court rulings, still remain to be resolved. In other industries where the anti-trust laws have forced numerous big concerns to divorce some of their subsidiaries and affiliates, the separated units as well as their former parents have often fared extremely well. It is quite possible that a similar record may be established in the motion picture industry, but operating problems in the production and theater ends are so broadly different that only time will determine how they progress after segregation.

Thus far, only United Paramount Theaters and Paramount Pictures have had any such experience, and their statistics cover only six months' operations. By the end of 1950, RKO must effect its segregation program and the Supreme Court has just refused to hear an appeal by Loew's, Warner Brothers and Twentieth Century-Fox to reconsider their enforced break-up of operations.

Generally speaking, profits from the big theater chains in the past have been far more stable and substantial than earnings from the production divisions of the integrated concerns. Last year, for example, RKO lost $3.7 million at the Hollywood end but earned $6.9 million from its theaters. Experience, however, has shown that some producers without theaters, such as Republic Pictures and Columbia Pictures have managed to get along fairly well.

Under the new pattern, the exclusive producers will have to meet heavier competition than before, but their market potential will also widen substantially. Additionally, their potentials in exploiting the TV field through the use of specially adapted films are not to be minimized. This latter factor probably accounts for the decision of so many leading executives to stake their futures with the producing companies after segregation or partial elimination of their picture houses. These experienced officials evidently envisage a promising outlook for the picture makers.

Now that theater attendance has begun to emerge from its depressed status, prospects of the established chains with houses in the well populated cities are enhanced. The enlarged output of new films appearing include many of exceptional quality that should stimulate public interest, while the improved outlook suggests at least a levelling off of ticket prices that of late had tended to weaken.

When the trend towards segregation is ended, the theaters should be able to establish their own policies as to what bookings of pictures should be undertaken, by this means eliminating the handicap of having to accept films of limited appeal along with the smash hits. The film industry in 1949, however, spent more than $66 million on newspaper and other forms of advertising, and expenses of this kind will continue to create heavy operating costs.

On the appended table we present statistical data relating to ten of the leading movie concerns, seven of which are dividend payers. It will be noticed that all of the firms operated profitably even in a lean year like 1949, although their experience varied widely in this respect.

In studying interim earnings in 1950, allowance must be made for an uptrend in more recent periods that fully offset an earlier decline in some cases, but since non-recurring capital gains resulting from the sale of theaters often distorted earnings, it is difficult to rely on any indicated trend. On the whole, though, it looks as if both divisions in the industry had experienced their worst days and were emerging gradually into better times that should further crystallize when the current maze of uncertainties is dispelled.

In reflection of the improved outlook, motion picture stocks have risen about 23% from their 1950 lows, compared with an advance of 18% of our 325 Combined Average. The movie shares, though, are generally around 40% below their 1946 highs, and hence have leeway for considerable appreciation if the industry succeeds in overcoming most of its recent handicaps and can make the most of the new opportunities now taking shape. Among issues with speculative appeal, we might mention Loew's (a dividend payer since 1923), Twentieth Century-Fox and Warner Brothers.

Politico-Economic News Around the World

(*Continued from page* 68)

devaluation in the summer of 1949, and who have repatriated their funds following the outbreak of the Korean war. Because of the tight money situation in Mexico, these funds are earning handsome interest (6 per cent and more) while waiting to slip back into the States.

Australia

Although the Australians now admit that they "missed the boat" and should have devaluated last Spring, and although Prime Minister R. G. Menzies stressed that "no change will be made in the Australian pound," some people are still convinced that up-valuation is a possibility. Apparently funds are still flowing into Australia, and the Australian pound "futures" continue to command a handsome premium.

According to Mr. Menzies, the Government intends to counter inflationary pressures by curbing bank credit, by controlling prices and distribution, and by invoking the excess profit tax. Although Australia has built up her foreign exchange reserves to a record level of £A 500 million, the bulk of this amount represents the influx of foreign capital.

The Commonwealth Bank estimates in its last annual report just published, that at least £A300 million represent funds transferred to Australia for speculative purposes and/or funds received on account of pre-payment for Australian exports, and/or money due but held back by Australian importers. The Bank estimates that the real foreign exchange holdings would not last more than six months at the present rate of imports. Hence in case of up-valuation, the present record foreign exchange reserves would probably "melt away," unless strict controls were imposed.

Great Britain

The rumors of an early up-valuation of the pound sterling were given plausibility by (1) the announcement that Britain's gold and dollar reserves increased by $334 million to $2,756 million during the third quarter, and by (2) the flying trip to Washington by Mr. Hugh Gaitskell, Minister of Economic Affairs, who is pinch-hitting for ailing Sir Stafford Cripps. Meanwhile sterling futures are establishing new highs, and anybody who has any payments to make—even a year from now—is buying sterling.

Towever, responsible banking opinion continues to treat the matter as "highly unlikely." "Rumors testify more to the imagination and gullibility of their creators than to their sense of realities," remarks the London Economist. It would seem that by upvaluing now, the British would invalidate their own arguments against any cut in ERP appropriations, and for getting "free dollar" grants

for rearming. However, Britain's old problem, the dollar gap, is nearing solution. Also the distrust of the dollar as an international payment medium is a gain for the pound sterling.

There is a lot to be said for the argument that Great Britain would gain more by extending the transferability of the pound sterling than by up-valuing it. On the other hand, political considerations should not be overlooked. Certainly the Labor Party is not blind to the fact that any upvaluation or unpegging of the pound would enhance its prestige; it would also help to keep prices down, an important consideration in view of the rebellion within the Labor Party and the coming armament spending.

Meanwhile foreign funds keep flowing into sterling in anticipation of a possibly quick profit, should upvaluation be decided upon. Time will tell whether such moves are premature or not.

Re-Appraisal of the Television Industry Under Defense Impacts

(*Continued from page* 71)

of 1949. For the full year net profit may range upward of $6.50 a share, compared with $3.17 last year. These figures are based on presently outstanding shares. Stockholders have been requested to approve at a special meeting late in November a management proposal for a two-for-one stock split.

Whether or not radio-television manufacturers will be called upon to produce any sizable quantities of electronic products for military requirements still is uncertain. Thus far orders have been comparatively small, according to industry spokesmen, who feel that the rapid progress of United Nations forces in Korea may defer excessive orders for radar equipment, proximity fuse components and other items that had seemed important a few weeks ago. Until the outlook becomes more serious than at present, Washington observers expect that military business will be left on a voluntary basis. In short, radio-television manufacturers will not be compelled to divert facilities now used for civilian products to armament output unless they wish to do so.

Industry leaders have been led to believe that orders in behalf of the Armed Forces may range between $1 million and $1.5 million in the next twelve to eighteen months. Such volume could be handled without too much difficulty, it is estimated, if orders are spread around and are apportioned over coming months. Ordinarily, radio and television production slackens in the second and third quarters, so that if military needs can be deferred until next spring, manufacturers would be in position to reduce civilian output while new models are being blueprinted and devote manufacturing facilities to Government business in that period.

Although preparations have begun for enforcement of a system of allocations and priorities for strategic materials, such as copper, tungsten, aluminum, nickel and other supplies important to manufacturers, leading producers are not particularly alarmed over such a program. Inventories have been enlarged sufficiently to take care of the bulk of requirements through the remainder of the year, it is estimated, and after the holiday season has been taken care of, sales executives think there may be a seasonal letdown in demand—at least until the Federal Communications Commission acts to end the "freeze" on new construction which might broaden the market for TV receivers.

In looking into the future of television's growth, it would be unrealistic to assume that the industry would escape entirely the restricting influences of a war economy even though the impact to date has been largely favorable. Output may be retarded to some extent next year, but industry authorities think that 1951 volume may compare favorably with this year's total. Production in the last two or three months has been running at an annual rate of about 9 million sets, it is pointed out, and it would be reasonable to assume that this rate would not be maintained throughout 1951. Productive facilities have been greatly enlarged since World War II, however, and principal radio-television companies will be able to accept Government electronic orders and still maintain a relatively high volume of civilian business.

Final decisions on excess profits taxes seem likely to have greater bearing on earnings in this in-

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF CONGRESS OF AUGUST 24, 1912, AS AMENDED BY THE ACTS OF MARCH 3, 1933, AND JULY 2, 1946

Of THE MAGAZINE OF WALL STREET published bi-weekly at New York, N. Y., for October 1, 1950.

State of New York } ss.
County of New York }

Before me, a Notary Public in and for the State and county aforesaid, personally appeared C. G. Wyckoff, who, having been duly sworn according to law, deposes and says that she is the Publisher of THE MAGAZINE OF WALL STREET and that the following is, to the best of her knowledge and belief, a true statement of the ownership, management (and if a daily, weekly, semiweekly or triweekly newspaper, the circulation), etc., of the aforesaid publication for the date shown in the above caption, required by the act of August 24, 1912, as amended by the acts of March 3, 1933, and July 2, 1946 (section 537, Postal Laws and Regulations), printed on the reverse of this form, to wit:

1. That the names and addresses of the publisher, editor, managing editor, and business managers are:

Publisher—C. G. Wyckoff, 90 Broad Street, New York 4, N. Y.

Editor—C. G. Wyckoff, 90 Broad Street, New York 4, N. Y.

Managing editor—E. A. Krauss, 90 Broad Street, New York 4, N. Y.

Business Manager—None.

2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one percent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address as well as those of each individual member, must be given.)

Ticker Publishing Co., Inc., 90 Broad Street, New York 4, N. Y.

C. G. Wyckoff, Inc. (stockholder), 7 West 10th St., Wilmington, Del., the stockholder of which is C. G. Wyckoff, 90 Broad St., New York 4, N.Y.

3. That the known bondholders, mortgagees, and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages, or other securities are: (If there are none, so state.)

Cecelia G. Wyckoff, bondholder, 90 Broad Street, New York 4, N. Y.

C. G. Wyckoff, Inc. (bondholder), 7 West 10th St., Wilmington, Del., the stockholder of which is C. G. Wyckoff, 90 Broad St., New York 4, N. Y.

4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the twelve months preceding the date shown above is..... (This information is required from daily, weekly, semiweekly, and triweekly newspapers only.)

(signed) C. G. WYCKOFF,
Publisher.

Sworn to and subscribed before me this 25th day of September, 1950.

(signed) FLORENCE B. HERNANDEZ

[Seal]
(My commission expires March 31, 1951.)

dustry than any other factor. Most companies have experienced record net profits in post-war years, so that exemption bases calculated on average earnings in recent years would be reasonably satisfactory. Unless world conditions deteriorate a great deal more than now foreseen, television may be expected to prolong its phenomenal growth through 1951.

The Trend of Events

(*Continued from page* 52)

seem agreed that television sets now in use have considerable service ahead of them before they become obsolete. The introduction of color into motion pictures certainly did not spell the end of black and white shows, nor will it in the case of television where the complexities of color may be even more difficult to overcome. Moreover, as far as the F.C.C. decision is concerned, it seems that the last word has not yet been spoken.

Candidates for Year-End Extras

(*Continued from page* 63)

plant improvements in postwar, the company incurred term debts totalling $12 million but no instalments will be due before 1952 and they will be moderate in amount. Dixie Cup has ample working capital, has a strong trade position and the markets for its products are expanding.

A strong uptrend in the price of copper in the current year has benefitted the earnings of Kennecott Copper Company correspondingly, and as usual with this concern, its shareholders should expect generous treatment at the end of the year. During 1950, however, quarterly dividends have been progressively raised from 75 cents a share in the March quarter to $1.50 in the September period, in contrast to last year's practice of supplementing quarterly payments with specials each time.

In the first nine months of 1950, total distributions of $3.25 a share compared with $2.25 in the related 1949 interval, but to judge from net earnings of $3.49 per share in the first half year and a prospective gain in the last six months of 1950, declaration of a substantial year-end payment would seem a logical expectation. The big copper companies traditionally distribute a generous share of earnings because of little need for additional working capital. With continued firm prices assured by the tight copper supply and Federal stockpiling, this leading producer should operate for some time to come with very satisfactory results.

In relation to estimated earnings of $14 per share for 1950, an assured total of $3 in quarterly dividends appears unusually conservative in the case of Thompson Products, Inc. Hence it is quite possible that by the end of the current year, stockholders may be more generously rewarded. In reflection of sharply improved earnings this year, quarterly dividends were raised from 50 cents a share in March to 75 cents in the two following quarters and the directors have announced that $1 will be paid on December 15 or 50 cents on the larger number of shares if a proposed 2 for 1 stock split is approved. Earlier this year, the stock was split $1\frac{1}{5}$ to 1.

Since there is hardly an industry to which Thompson Products does not supply precision parts or equipment, and its military orders for aircraft items are rapidly mounting, there is good reason to assume that company's volume and earnings will continue very satisfactory. The June 30 balance sheet reveals unusual liquidity, with cash and government securities more than covering all current liabilities. Current assets cover current liabilities about four-fold. In the circumstances, the progressive liberality displayed towards stockholders in the current year could be comfortably extended before the year is finished.

There are few businesses where earnings for quite a stretch ahead can be foresen with such dependability as in the instance of large installment credit concerns, since future income stems from the gradual payment of receivables already acquired. Hence the record acquisition of $991 million receivables by Commercial Credit Company in the six months ended June 30, 1950, points to strongly sustained earnings for at least a year to come. Earnings of $4.60 per share in the first half year,

partly derived from successful operations of the company's insurance and manufacturing divisions, should be at least repeated in the final six months, and may even expand next year despite the reactivation of Regulation W.

Although this company borrows heavily to finance the purchase of receivables, these loans are well secured and self-liquidating. For these reasons, Commercial Credit's dividend policies are fairly liberal and quarterly payments in the current year have been at an advanced rate of $1.20 per share. In 1949, however, a December special of 30 cents was paid, so that chances are good that the current unusually prosperous year will warrant similar action.

Deere & Company, assured of highly satisfactory earnings in its fiscal year ended September 30, will probably follow an established policy of declaring a generous dividend in December. During nine months alone of fiscal 1950, net earnings were $10.07 per share, while including two specials, the dividends paid in the period were a modest $2. Last year, a lush December payment of $3.50 brought the total for the calendar year to $5 a share, and financially the company is now in even a stronger position to take a similar step.

On the appended table we present statistical data pertinent to the few companies we have discussed, as well as to a substantial number of others that seem logical candidates for year-end extras. As we have pointed out, though, uncertainties over taxes and the handicaps of operating in a defense economy may sway the dividend policies of many firms in an unpredictable manner.

As I See It!

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communists didn't dare—couldn't afford – to intervene; had they been able to, or thought it wise and expedient, they certainly would have done so to clinch their victory and our defeat.

The fact seems to be that Russia as well as Red China simply were in no position to intervene, that is, intervene effectively without gravely jeopardizing their own positions. Russia may be a military giant but wouldn't remain so long, were her military potential subjected to steady attrition under the necessity of supporting her satellites with weapons and munitions in a conflict that could not possibly be decisive as far as the larger East-West struggle is concerned.

Nor could Red China weakened as she is after years of civil war, afford to risk direct military conflict with the United States which almost certainly would mean destruction of her cities, her industries, her vital communications with her Russian ally.

One is forced to the conclusion that for very practical reasons, both thought it wiser to stop short of moves of direct intervention which would surely have brought on World War III, for which Russia is not yet ready.

This being so, why think of appeasement? Why not rather adopt at long last a firm policy towards communism in which there is no place for wavering? If the President and the Far Eastern commander have come to a smoother working basis along such lines—and this is as yet to be revealed by subsequent actions, then the meeting at Wake will not only prove an important step towards furtherance of our world peace program but relegate to minor place the suspicions that it was called with political motives foremost in mind.

Weighing Market Prospects After Election

(*Continued from page* 55)

repurchases. For the same reasons, there will be more of a tendency to let unrealized losses ride into 1951, rather than to establish them this year.

On the supporting side, there is a good deal of steady buying of stocks by open-end investment trusts, trust funds, pension funds, etc. Moreover, most individuals who have bought stocks on this rise are long-pull investors, more or less predisposed against any selling. Bulls like to emphasize both of these facts. But, of course, they are not new; and they do not preclude reactions or "wait-and-see" phases. Thus, regardless of the reasons, we have had two downswings of more than 30 points each in the industrial average since the summer of 1948. Depending on the news and prevailing sentiment, the next one might be 20 points, 15 points or what have you—but it will come. We repeat: This is a time for reasonable caution.—Monday, October 16.

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